BUILDING SECURE OPENNESS
An initial agenda for action:
12 Pioneer Projects

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Heywood Fellowship Team

SUMMARY

This annex to the capping paper sets out an initial agenda for implementing the Building Secure Openness Framework. It is not intended to be a comprehensive policy programme; rather it focuses on areas where the most significant shifts in policy and practice are needed. Together, the portfolio of 12 "Pioneer Projects"[1] touches on a number of GEO domains including trade, investment, finance, technology and energy. We see this as a useful reference guide – each policy description can be read individually for those interested in that specific policy area, or they can be read together to give an overall sense of direction.

[1] A previous Heywood Fellow, Lucy Smith, used this term to describe a portfolio of strategic projects that accelerate delivery of a new national strategy.

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STRENGTHENING RESILIENCE

1. Comprehensive assessment of geo-economic risks to the UK

Proposal

The UK should build on the resilience work done to date and broaden the scope to include assessing the potential risks from the weaponisation of economic power. It should use rigorous frameworks consistently to focus attention on the most material risks to resilience. And it should sustain this as a regular part of policymaking: engaging with business directly, embedding dynamic assessment and building standing capacity.

Detail

The UK needs to be resilient to economic risks that stem from:

1. External shocks or disruptions like pandemics, financial instability, climate shocks

2. Power relations and pressure in bilateral negotiations or relationships, including economic coercion

Progress has been made on improving UK resilience over the past few years and there is much to build on. However, our approach largely focuses on 1.[2] In the scenarios the Heywood Fellowship published in January, the UK faces direct economic coercion in one (in G vs G) and has to deal with power relations and pressure against our economic interests in all of them (and especially G vs G, GX and G2). Our work chimes with the recent assessment by the National Preparedness Commission 2026 Report which concluded that the changing world order and the worsening geopolitical situation are posing increasing risks to UK resilience.[3]

Some resilience measures will help manage the shock whatever caused it. There is something to the ‘threat agnostic’ or whole system approach to shaping resilience. However, for those impacts stemming from external power or coercion, there may be the option to deploy diplomacy or countervailing political or economic power (it is hard to negotiate with a pandemic, easier to do so with another country in an economic dispute). Indeed, part of the policy choice would be the differential value in diversification now (rather than retaining the risk), or diplomacy or adapting in response to it. So, at least in part, the toolkit will differ.

[2] For example the UK Critical Risks Register published in 2025 focusses on shocks under category 1.
[3] https://nationalpreparednesscommission.uk/publications/national-preparedness-the-new-strategic-issues/

To respond to increasing risks to resilience, the UK needs a more comprehensive assessment of risks and vulnerabilities and policymaking approach including the following elements:

1

Clear communicated metrics

to focus policy attention on material risks. Not all international linkages are a source of vulnerability and there is a risk of 'overinsurance' – i.e. introducing (costly) policy responses across whole swathes of the economy where the risk created through exposure is immaterial or manageable through economic conditions such as the ready availability of substitutes and alternatives. Any such assessment therefore needs a clear way of defining and measuring the material risks from coercion and economic power. The Tony Blair Institute's (TBI) proposed 'Chokepoints Framework' is one such set of metrics.[4] While framed in terms of being applied to technology, the metrics (tweaked a bit) could also be applied to a wider lens on the economy (e.g. to include services). There is also now a growing academic literature on what defines a chokepoint, including a forthcoming book by one of the Blavatnik Fellows, Claas Mertens. In his forthcoming book, Claas elevates substitution (and adjustment) costs as the defining feature of chokepoints.[5] And he identifies four recurring varieties of chokepoints (platforms, know-how, fixed-capital and market-access). There is, therefore, a growing analytical basis to enable policymakers to assess and prioritise potential risks. As argued in the TBI report, the purpose of metrics is to focus attention and rule out some areas for action – 'saying no' is as important as the ability to strategically intervene. The Government should adopt such a set of metrics and communicate them, including in depth with business.

2

Data and analytic capability

The UK is investing in this sort of capability through the Global Supply Chain Intelligence Programme (GSIP), using modern data science techniques and AI (which are necessary as traditional data sources do not capture all of the risks). It is a cross-departmental collaboration and a successful innovation with strong external evaluation so far. This sort of analytic capability should be scaled to a standing national capability capable of looking across the breadth of the UK economy and be deployed as one of the core foundations of this approach to resilience.

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[4] (https://institute.global/insights/tech-and-digitalisation/technological-chokepoints-how-to-balance-resilience-and-leverage#footnote_6)
[5] Varieties of Chokepoints - forthcoming

3

Stress testing and scenarios

As the economy and global context is constantly adapting, the Uk should build a process to regularly review and assess risks, which must be cross domain and across government. This would involve horizon scanning, table tops and wargaming/simulation exercises much as the national security community do for more traditional military and security risks or how stress tests and scenarios work is used to test financial stability. For these sorts of economic and commercial risks stemming from the weaponisation of economic power and coercion, government should find a way to do this with business – our related proposal (see Project 12) for a new Global Strategic Industries Group would be one place to do this.

4

Institutional changes to embed resilience work

The set of institutional changes proposed by the National Preparedness Commission's chair in his recent paper Making it Happen are focusing on the right elements - national legislation (with mandates for all public bodies), a Minister with responsibility, and an annual assessment of risks/annual reporting on progress (which in this conception would be broader).[6] Delivering this sort of comprehensive risk assessment would be one of the core tasks for our proposal for a new Joint Unit to bring together economics and security across government (we discuss this in more detail in the capping paper).

[6] https://nationalpreparednesscommission.uk/publications/making-it-happen/

2. Valuing resilience consistently across government – a new duty and amending government appraisal

Proposal

The UK government should adopt a new 'valuing resilience framework' across public sector decision making. This should include a Resilience Checklist for any public project or spending that impacts national resilience, and a higher-threshold Resilience and Robustness Case for any public project or spending that falls within what we define as the geo-strategic economy. Resilience reporting for both should take as reference common geopolitical scenarios developed by the Joint Unit we propose separately. Together these help create a system where resilience is structurally embedded in decision making, while remaining proportionate with different tiered thresholds.

This could be implemented through a new statutory duty of resilience and an updated resilience assessment in the Green Book[7]. A new statutory duty of resilience would require all public bodies to have due regard to national resilience impacts, modelled on existing public sector duties. Updating Green Book guidance would offer a proportionate way of valuing resilience by embedding a resilience assessment step into the Five Case model following the precedent set by the climate resilience approach. The Green Book already allows and recommends some of these approaches, the difference would be to mandate more thorough modelling for cases that meet the geostrategic threshold and to better standardise this process through use of geopolitical scenarios.

Detail

The UK consistently ranks outside the top 10 on multiple major global resilience indices.[8] The UK's existing norms and rules on value for money and appraisal of public projects were built for managing marginal change in stable conditions. This does not adequately account for tail risks, overlapping crises, or the need to value stability alongside efficiency. The UK government's standard expected-value framework routinely undervalues redundancy and cannot capture the strategic long-term value of UK autonomy in critical sectors.

We therefore propose that the government embeds valuing resilience in decision-making and appraisal. Resilience is the ability to withstand shocks and recover quickly from them. Valuing resilience means more than just investing in buffers, reserves and insurance, it also means putting a price on optionality and diversification.

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[7] The Green Book is the UK government's appraisal guidance for public spending.
[8] See "UK Resilience Index A Rise in Ranking but Risks Remain on the Horizon," April 2026 https://www.fm.com/uk/insights/uk-resilience-index-a-rise-in-ranking-but-risks-remain-on-the-horizon and written evidence from Lloyd's Register Foundation April 2026 https://committees.parliament.uk/writtenevidence/165757/pdf/

Standardising the measurement of resilience shows that there are different kinds of resilience: sometimes the resilient option costs more in the short-term but saves in the long-term; and sometimes the resilient option is not necessarily more expensive and instead means choosing qualitatively different kinds of contracts or diversified partners. Improving how we measure and value resilience is crucial to developing a more resilient UK economy.

The National Preparedness Commission has reached the same conclusion and has recommended specifically for Treasury appraisal guidance to be revised to ensure long-term requirements for preparedness and resilience are given due weight.[9] This proposal sketches how to do so. The UK government's appraisal machinery has recently adapted to take climate risk into account, and it is by extending that work, and mandating where relevant some of the same analytical models, that it can make public bodies and spending decisions more robust in a geopolitical context that is not just riskier, but fundamentally more uncertain.

A new statutory duty of resilience

The most durable and system-wide intervention would be a new Statutory Duty of Resilience, requiring all departments and public bodies to consider national resilience impacts. Here national resilience would be defined as “the ability of the UK to anticipate, withstand, and recover from geopolitical, economic, or systemic shocks — including supply chain disruption, economic coercion, critical infrastructure failure, and crises affecting the continuity of vital state and society functions.”

Precedent and model

A statutory duty is a legal obligation imposed on public bodies and authorities by an Act of Parliament. A statutory duty requires public bodies to have due regard to a specified objective – not to achieve a particular outcome but to demonstrate the objective was considered and weighted in decision-making. Statutory duties help instil systemic changes across the public sector by rebalancing priorities and enforcing proactive transparency. Recent statutory duty additions have been the statutory “Duty of Candour” on transparency in inquiries; the Public Sector Equality Duty to eliminate unlawful discrimination; and the Environmental Principles duty.

[9] National Preparedness Commission : The New Strategic Issues, 2026

A Statutory Duty of National Resilience would follow a similar architecture. It would require that:

- All new policy proposals must have due regard to the proposal's impact on national resilience;
- Where a proposal materially affects national resilience (as defined), a formal Resilience Checklist must be included in the business case or wider policy development;
- The Heywood proposed Cabinet Office Joint Unit would maintain approved geopolitical scenarios and recommend assessment methodologies that must be applied for cases that intersect with the geo-strategic economy.

A refined two-tier threshold

Drawing on peer government's recent resilience and security legislation, and existing UK approaches to the management of critical supply chains, we recommend a two-tier structure that requires all public bodies to take national resilience in due regard. This two-tier structure is more proportionate than a single threshold. Tier 1 captures the broad population of relevant decisions with a low compliance burden. Tier 2 reserves the full analytical requirement for decisions where it is material to the geo-strategic economy.

***Tier 1** – Broad vital functions screen*

Does this proposal or project materially affect the UK's capacity to withstand or recover from geopolitical, economic or systemic shocks?

If yes, the statutory duty requires projects to consider a **Resilience Checklist** that includes consideration of business and/or financial dependency and supply chain concentration, continuity planning in the event of significant and long-term disruption, other cyber, digital or climate risks not disclosed elsewhere, potential contributions to national resilience, and exposure to a minimum of two geopolitical scenarios. This guidance aligns with the checklist from the Corporate National Resilience principle. This consideration is the lighter version that captures a broader area of the economy and requires that these concerns are cumulatively taken in due regard.

Tier 2 *– High-Criticality: The geostrategic economy*

Does the proposal additionally meet one or more of the following criteria, or otherwise fall under our definition of the Geo-Strategic Economy[10]:
(a) disruption would have a catastrophic or severe national impact;

(b) cascading failure to other vital functions is plausible; or

(c) the proposal creates or reinforces an asymmetric dependency where more than 60% of supply of a critical input comes from a single country without a binding Treaty.[11]

In our capping paper we have defined the geo-strategic economy as the overlap between assets that are highly globally integrated and rivalrous and are material to the survival and resilience of the nation or to economic strategic advantage.

If yes, a full **Resilience and Robustness Case** is required, including minimax regret analysis and explicit autonomy premium justification in response to the Joint Unit's scenarios.

What a Resilience and Robustness Case entails

Where Tier 2 is triggered, the policy development must include a Resilience and Robustness Case addressing two main questions. It must do so in response to the Cabinet Office Joint Unit's geopolitical scenarios and by relying on standard climate and engineering modelling techniques on decision making under uncertainty. The questions are:

1. **Worst-case tolerance:** What is the worst outcome we are willing to accept, and what is the cost of avoiding it? Framed as minimax regret —the analytical exercise is to identify how to minimise the maximum greatest mistake across plausible scenarios instead of optimising for the central case.

2. **Autonomy impact:** Does this proposal increase or decrease UK decision-making autonomy in a critical sector? Where the preferred option costs are greater than the cheapest alternative, the additional spend could be justified as an autonomy premium, using real options analysis to price the option to act independently in a crisis.

[10] In particular this draws on aspects from Australia's recent SOCI act of tiered compliance obligations and the EU's recent CER Directive
[11] This threshold follows what the UK has already determined with regards for critical minerals in its Vision 2035: Critical Minerals Strategy, and expands the logic to a wider set of the economy

The Resilience Case may also use a dependency and concentration screening, applying tools such as the Herfindahl-Hirschman Index (HHI) for supplier concentration; the Foreign Product Exposure Metric (FPEM) for geopolitical dependency; and the OECD Triple-A framework (Agility, Adaptability, Alignment) for supply chain resilience.
The purpose of the Resilience and Robustness Case is not to override all other considerations, but to include resilience thinking as part of measured public body judgment.

Updating the Green Book: adding the resilience case to spending

The Green Book has an existing approach to climate resilience that demonstrates it is possible to embed a non-standard, forward-looking risk category into the appraisal framework in a credible, evidence-based and proportionate way. Like climate resilience, national resilience must be adopted as a defined category of appraisal. Then, the Green Book would use the same tiered thresholds to determine the degree of resilience information required to complete a fair appraisal.

Cases that fall in Tier 1 (material impacts to vital functions of the state and society) must at a minimum address the **Resilience Checklist**, which involves consideration of business and/or financial dependency and supply chain concentration, continuity planning in the event of significant and long-term disruption, other cyber, digital or climate risks not disclosed elsewhere, potential contributions to national resilience, and exposure to a minimum of two geopolitical scenarios. In these cases, minimax regret and options analysis modelling is not mandated but national resilience considerations must be taken into consideration in decision-making.

Cases that fall in Tier 2 (the geo-strategic economy) require a full **Resilience and Robustness Case** which mandates using minimax regret analysis and real options analysis to cost and justify the autonomy premium. Additionally, the most relevant methodologies of the following may be used including: the Herfindahl-Hirschman Index (HHI) for supplier concentration; the Foreign Product Exposure Metric (FPEM) for geopolitical dependency; and the OECD Triple-A framework (Agility, Adaptability, Alignment) for supply chain resilience in response to the Joint Unit’s geopolitical scenarios. Departments must stress test against extreme geopolitical scenarios and factor this into the entirety of the business case.

Appendix: three types of resilience

This appendix sets out three examples across different spending and procurement contexts. Across these examples, there are three distinct types of resilience: cases where resilience does cost more today; cases where resilience incentivizes contracts structured differently; cases where resilience motivates diversifying partnerships.

Type A — **Resilience costs more today:** The autonomy premium is proportionate to the tail risk being avoided and the counterfactual would be more expensive still. In some cases, the resilience option is genuinely more expensive, or the crisis to avoid never comes to bear.

Type B — **Resilience is qualitatively different, not more expensive:** The cost difference is small or negligible; what changes is contract structure, specification, and retained optionality. The current framework does not have a way of valuing this difference.

Type C — **Geopolitical dependency motivates re-directing the supplier choice:** A supplier that would not be selected on cost grounds may become the right choice when geopolitical concentration risk is priced in. This is perhaps the most challenging option and why clarity on sources of geopolitical risk from scenarios is crucial.

3. Increasing private sector resilience – a corporate national resilience principle

Proposal

The UK should adopt a boardroom-level Corporate National Resilience (CNR) principle that would implement "comply-or-explain" resilience reporting for corporates, combined with regular geopolitical scenario stress-testing. The principle could be implemented through the UK Corporate Governance Code, and/or other corporate governance codes that are voluntary.

Detail

Building Secure Openness calls for an increase in national resilience - the capacity of the country (its society, economy and infrastructure) to withstand shocks and recover quickly from them. This requires greater investment in resilience measures across the economy, including in the private sector. A more resilient economy – with more resilient businesses – is also ultimately a source of stability and attraction. More resilient companies perform better through crises and are better equipped to recover and adapt after crises occur, with measurable commercial gain[12] .

One of the core enablers that sits alongside building secure openness (detailed in our paper "Bridging the gap between Government and the Boardroom") is that the UK should deepen its relationship with business. Embedded corporate resilience reporting and geopolitical scenario stress testing is part of this strategic shift and should include learning from business expertise in this area.

We propose an approach to CNR reporting that would require company directors to produce an annual resilience statement and to undertake regular scenario and stress testing of the companies resilience under a range of geo-political scenarios.

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[12] See BCG research "Business Resilience in Times of Uncertainty" https://www.bcg.com/capabilities/business-resilience

Reporting requirements

In terms of the scope of reporting, it would be similar to that proposed in the 2021 White Paper which would have implemented resilience through changes to Company Law.[13] This legislation was not adopted but we are revisiting it here and argue that the scope on resilience was the right one – with the implementation options discussed below. It proposed reports structured around material challenges to resilience over the short and medium term, based on company judgment, of the following issues:

- Financial liabilities and liquidity pressures
- Operational and financial preparedness for significant and prolonged disruption
- Digital and cyber security risks
- Business dependency or concentration – suppliers, customers, products, contracts, services, markets
- Climate and sustainability risks not disclosed elsewhere

To this list we would add:

- National resilience contribution: where relevant, what does the company contribute to national resilience, or what could it provide in a crisis, with its current capacity and constraints?

Together, these help identify for businesses and government alike sector-level supply chain concentration; critical function continuity; geopolitical exposure; and other capacities to contribute to national resilience.

Scenarios and stress testing

In addition to resilience reporting, the proposed principle would require that firms undertook resilience stress testing and used at a minimum two geopolitical scenarios. The financial sector has demonstrated the usefulness of stress testing, and our own geopolitical scenarios have underlined how future scenario testing reveals vulnerabilities not revealed with standard forecasting or implicit assumptions. Such scenarios could be developed in collaboration with government, as discussed in our enabler paper "Bridging the gap between Government and the Boardroom".

[13] "Restoring Trust in Audit and Corporate Governance" 2021

The reporting mandate would incentivise board-level resilience strategic thinking and decision-making. There are some parallels with Environmental Social and Governance (ESG) reporting and behaviour change. ESG over time evolved from soft commitments to quantifiable, auditable data points (emissions tonnage, board composition percentages, pay ratios) that could be aggregated into ratings, fed into index construction, and used by asset managers to screen and price risk. It gave companies something to measure. The aim would be evolution towards narrow, tightly bound metrics on supply chain concentration and geopolitical exposure.[14]

In the medium term, aggregate CNR disclosures could form the basis of a broader National Resilience Index – a sectoral dashboard of the UK's resilience exposure. This work would begin to generate supply chain concentration and critical dependency data across sectors and would give businesses a conduit to inform and advise on the metrics that matter most.

Implementation - corporate governance codes and other mechanisms

The core route to implementation would be through corporate governance. The UK Corporate Governance Code binds listed companies (those listing on the Official List's commercial companies category, via FCA Listing Rules). It operates on 'comply or explain', so a board could decline to comply with a resilience provision as long as it gave a rationale. The FRC can revise it without primary legislation. The principle could be implemented by an amendment to the UK Corporate Governance Code, specifically Provision 29. Provision 29 requires boards to report on material controls and risk. The CNR amendment would add national resilience dependencies to the list of material risks that boards must consider and disclose.

The Wates Corporate Governance Principles were created to extend governance-reporting expectations to large private companies (the 2018 Companies Regulations require large private companies to state which corporate governance code they follow, with Wates as the default option). They are voluntary, with no regulator and reporting quality may therefore be inconsistent because compliance is essentially self-graded. These could be similarly amended to add a resilience reporting principle.

A further option would be to extend climate-reporting in the UK Sustainability Reporting Standards (SRS). These already contain a value-chain/dependency disclosure architecture (climate-related risks across the value chain, scenario analysis, transition planning) that supply-chain and national-resilience reporting could plausibly extend rather than duplicate - piggybacking on infrastructure, taxonomy, and assurance practices that companies are already building for climate reporting.

[14] See Michel Prombo's working paper, "Geopolitical resilience of nations: a systemic model of power, sovereignty and strategic Fragility," April 2026 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=6438003

UK SRS is presently scoped to sustainability/climate materiality, so broadening it to cover geopolitical and national-security-flavoured resilience would require either stretching the standard's purpose or treating resilience as a genuinely new, adjacent standard-setting exercise.

The CNR principle could also be embedded in sector-specific regulatory frameworks for the most critical private companies - through Ofgem, Ofwat, the PRA.

4. A specific example – resilient payments systems

Proposal

The UK's progress in building out resilient payments systems is both a priority and an example of how to strengthen resilience. This note explains and illustrates recent work on payments systems as a case study. This approach could be replicated in other areas of the UK economy with similar features: single points of operational failure; or technological or commercial dependency where there is limited supplier competition.

Detail

A payments system is the combination of the technology, network of banking accounts, rules and payment-rail infrastructure that allows money to move reliably between people and organisations. If currency is the lifeblood of an economy, payments infrastructure is the circulatory system – without it, nothing functions. When the UK's card networks went down for ten hours in 2018 due to a Visa processing fault, petrol stations closed, supermarkets stopped accepting payments, and social disorder was a real risk. Whether disruption at a single source of failure is intentional or not, the disruption to society and economic cost is the same.

Payments systems have long been designated as part of Critical National Infrastructure, yet the UK has for more than a decade been an outlier amongst peer countries in relying almost exclusively on two foreign companies, Visa and Mastercard, for 95% of retail payments. Until recently, there was limited interest or mobilisation in establishing alternatives.[15] UK policymakers have, more recently, identified UK economic and operational vulnerabilities that the market alone will not today address. The motivation to build payments alternatives, evidenced in the Bank of England's own words, has been to reduce merchant costs and increase competitiveness and operational resilience.[16] Parliament has also recognised this progress as a key part of digital sovereignty.[17]

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[15] See Payments System Regulator paper "Market review of card scheme and processing fees interim report," 2024
[16] Sarah Breeden, "Talking 'bout next generation – speech," https://www.bankofengland.co.uk/speech/2026/february/sarah-breeden-keynote-speech-at-the-city-financial-annual-payments-regulation-and-innovation-summit February 2026.
[17] Matthew Pay, Simon Brawley, "Digital Sovereignty" https://researchbriefings.files.parliament.uk/documents/POST-PN-0777/POST-PN-0777.pdf August 2026

The UK's work towards more resilient payments systems has followed a model that this project describes as flotilla-ism: not a single government-delivered solution, but a coordinated fleet of public and private actors moving in the same direction under a shared strategic vision. The ongoing UK governance process of building the infrastructure to support resilient payments systems has relied on HM Treasury and Bank of England strategic direction to establish an industry-led and industry-funded payments company responsible for building out retail payments infrastructure. There are multiple components to this process, but the main company now established and chaired by Barclays CEO, and funded by leading private British banks, is DeliveryCo. It is now responsible for building out alternative retail payments infrastructure in the UK, following the direction set by the BoE and HMT.

The retail payments alternative has been framed simultaneously as a competitive alternative and a sovereign back up. Building alternative infrastructure presents genuine coordination challenges which no private actor on its own has an incentive to solve, but with government direction in setting up a company made up of a group of leading private banks, the coordination and investment become a shared endeavour.
In addition to DeliveryCo, the UK is pursuing two other related but complementary payments initiatives:

DeliveryCo	Build sovereign UK retail payment rails — a domestic alternative to Visa/Mastercard infrastructure. Chaired by Barclays CEO; industry-owned. Target: operational 2030.	Established Feb 2026; infrastructure design underway
UK Payments Initiative (UKPI)	Compete directly with Visa/Mastercard on commercial Variable Recurring Payments. Led by FCA; 30 shareholders including Revolut and Monzo.	Established Dec 2025; gradual phase-in from Q1 2026
BIS Project Nexus / Project Agora	International cross-border payments infrastructure — a public utility to reduce remittance fees and reduce reliance on US correspondent banking. BoE is a participant.	Active BIS-led project; UK participant

DeliveryCo and UKPI address the domestic resilience problem - reducing the UK's dependency on Visa and Mastercard for everyday transactions. Project Nexus addresses a different issue of improving technology to facilitate cross-border payments to rely less on incumbent correspondent banking.

ECONOMIC DETERRENCE

5. Creating and deploying economic leverage as deterrence

Proposal

The UK needs to be able to exercise economic leverage in a contested world - principally to help deter potential adversaries from coercive economic action against us but also to respond to weaponisation. While the UK has sanctions powers covering trade and finance and has long used them as part of our foreign policy, we have not focused on using these powers for national deterrence and this requires a different policy framing, process and potential toolkit.

The UK should:

1. Identify potential assets that could confer leverage. We propose a coherent **framework** for approaching this and a **process** for how it could be applied to find and test leverage-conferring assets – including working with business;

2. Develop a sharper capability to **deploy** leverage **for a context of national coercion,** through both broader and more aligned powers. These powers should be designed with leverage (especially deterrence) objectives in mind; include careful design around interaction with negotiations, predictability and escalation; and include inter-operability and co-operation with allies.

The Fellowship sees this as effectively an 'insurance policy' for some of our scenarios – steps that are better taken now, rather than seeking to use or create capability in the midst of a crisis.

It is also possible that the UK might seek to build and strengthen such leverage-conferring UK assets over time. Our paper "NSSIF 2.0" sets out how that could be done, including through the use of the public balance sheet and UK Public Financial Institutions.

Detail

The UK has a long practice of using economic leverage as part of foreign policy, most obviously and recently through the deployment of economic sanctions[18]. The UK Sanctions and Anti-Money Laundering Act 2018 provides the legal basis for both (i) establishing a new sanctions regime and (ii) designating individuals or entities under that regime. These powers were passed by Parliament as the UK left the EU and give the UK government power to impose new measures, both to implement UN sanctions regimes (i.e. to join international coalitions imposing measures) and for UK-only action.

However, neither the powers nor their policy use have been shaped with the disrupted global economic order in mind. For example, the conditions in the legislation, which articulate the reasons why a government may take a new sanctions power, are principally framed in terms of either meeting international obligations (such as UN obligations or humanitarian law) or furthering foreign policy objectives like tackling terrorism, preventing the spread of weapons of mass destruction or promoting democracy and good governance abroad. While there is a generic purpose of 'interests of national security' (which may legally be sufficiently broad to include some deterrence actions), this overall framing reveals that the policy mindset was not focused on the UK navigating the global economic order and potential economic weaponisation we now face.

Perhaps more importantly, since we left the EU, the UK has imposed sanctions on Russia, Belarus, Iran and Syria (for foreign policy reasons) and introduced new global regimes targeting human rights abuses and global corruption. The UK has not been economically coerced, while partners, like Australia, have. UK policy practice associated with economic leverage has therefore been more focused on broader foreign policy goals and less on national deterrence in the face of a threat or risk.

This pioneer project therefore proposes how the UK could develop our approach and toolkit to sharpen UK economic deterrence.

I. A framework for assessing credible economic leverage

Some argue that attempting to identify sources of economic leverage that could deter or influence other countries (especially alone) would be a fruitless exercise for the UK. Arguments include that the UK is too open and reliant on interaction with the world to ever be able to exercise such power credibly; or that it is too small to impose material costs that would actually change behaviour; that it lacks so-called 'escalation dominance'; that it is a services-based economy and services – by their nature - cannot create economic leverage or deterrence; or that we would never deploy any deterrence because the relative costs would be too high on the UK. These arguments are in places not sufficiently rigorous – they are often identifying assets that could not be used to create leverage because they do not have the right properties. And/or they presume (rather than show) that there is always the wrong relative balance of costs for the UK. Or they are making assumptions about the deployment of assets in specific contexts – around what would happen in terms of escalation and retaliation. What is needed is a clear analytical framework and set of criteria to rigorously test assets or capabilities against. And then greater clarity about when it is credible to deploy them (and when it isn't).

This requires looking beyond economics and into deterrence literature and emerging work on chokepoints. While there is some variance and debate, chokepoints are generally described in the literature as having three dominant features, as summarised by Edward Fishman:

> ***"A single country or coalition of close allies possesses a dominant, concentrated market share. Substitutes are unavailable in the short term. And the country or coalition can weaponize its position in ways that impose asymmetric pressure, inflicting substantial pain on the target while suffering minimal self-harm"*** [19]

This is an emerging field in academia and the analytical base is growing. In his forthcoming work[20], our colleague at Blavatnik, Claas Mertens, argues that the future of geoeconomic strategy will be about how to identify and govern the international exchanges where openness risks being weaponised. He elevates **substitution** (and **adjustment**) costs as the defining feature of chokepoints. His central argument is that 'geoeconomic power arises from specific international economic exchanges in which one side faces very high costs of substitution if access is restricted, while the other side can more easily bear or redirect the costs'. His work shows that understanding **asymmetric substitution costs** - how much money and time it takes for one state to substitute an asset compared to how much money and time it takes for an adversary to do so, and how able and willing each is to bear the costs of disruption or substitution - is one of the key future determinants of geoeconomic power. Being able to identify with greater precision these exchanges is the first step towards being able to better govern them.

Claas's work also identifies four recurring varieties of chokepoints (platforms, know-how, fixed-capital and market-access) to better explain how different categories of chokepoints have different substitution costs and shows through examples how leverage-conferring assets change over time.

All of these theoretical approaches are about the characteristics of the assets and the location of the country within the wider global economic system – they are testable in the real world.

As policymakers, we would add that the UK Government would need to have sufficient autonomy and control over the asset to be able to deploy it. We recognise that level of autonomy is subject to change over our 15-year time horizon – the UK could withdraw from international treaties and/or grant itself more legislative power, for example.

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[19] How to fight an economic war: a field manual for a ruptured world – Edward Fishman (Foreign Affairs, May/June 2026)
[20] Varieties of Chokepoints Book forthcoming. https://claasmertens.com/

However, as a first attempt at finding leverage-conferring assets, starting with assets that you currently have autonomy over is a practical approach. This then links to the necessary powers discussed later in this note.

Finally, an assessment would need to be made on the level of exposure to and dependence on the asset of each potential adversary as its asymmetric power will differ. The framework would need to be applied to a specific context or set of contexts. And this is where issues of relative costs, escalation strategies and credible deployment come to the fore.

On this basis, we propose the following assessment framework for identifying potentially credible economic deterrence levers:

CATEGORY	DEFINITION	EXAMPLE MEASUREMENT METRICS
DOMINANCE (a)	Strength of UK control <u>over a process or platform</u> The UK is the sole provider of the platform/process or has sufficient control/freedom of action over it	% of global transactions or processes routed through UK-controlled platforms Market share of UK-based firms in the specific platform/process(%)
DOMINANCE (b)	Strength of UK supply concentration <u>of a product</u> The UK dominates production or supply of a product globally (80% or above indicates a chokepoint)	UK share of global production/export (%) Global supply concentration ratio (UK vs next largest suppliers) % of critical inputs sourced from the UK by importing countries

DEPENDENCY & SUBSTITUTABILITY (ADVERSARY SPECIFIC)	There is high dependence on the UK asset. Substitutes are not available and would take years to develop. The asset is embedded in, or essential to, wider systems and capabilities making decoupling difficult. Adjustment costs (e.g. to build new technological capabilities or infrastructure) are prohibitively high.	% of adversary imports sourced from the UK (trade dependency ratio) Availability of alternative suppliers (number of viable substitutes globally) Time-to-substitute or build domestic capability (weeks/months/years) Interoperability: number and criticality of dependent systems Adjustment cost of substitution (% increase in procurement cost. Cost of investment in new tech or infrastructure)
ASYMMETRIC COSTS (ADVERSARY SPECIFIC)	Limiting access to the asset imposes asymmetric costs on the adversary. The relative scale of economic or political damage on an adversary significantly exceeds the cost imposed on the UK (and is at, or below, an acceptable level for the UK).	Chokepoint variety (platform, know-how, fixed-capital, market-access) Criticality score (e.g. national security relevance, dual-use classification) Share of adversary critical sectors reliant on asset (%) (e.g. defence, energy, tech)

AUTONOMY (INTERNATIONAL POLICY SPACE)	The UK has high or sufficient degree of freedom to act in relation to the asset, including taking into account any international legal, diplomatic or institutional constraints that may limit independent decision-making	Existence and number of binding bilateral or international agreements restricting action (e.g. WTO, FTAs) and risk of legal action (e.g. dispute settlement) Existence of domestic laws constraining control Level of support amongst allies for UK position
AUTONOMY (UK GOVERNMENT LEGAL AUTHORITY)	The UK government has jurisdiction and regulatory control over the asset, including the ability to set rules, grant or restrict access and exercise sovereignty over its use	HMG ownership/control share Existence of statutory powers (e.g. export controls, regulation, national security exemptions)

Collective leverage

Further work would be needed to determine the extent to which the UK's leverage ability in relation to a specific asset might be increased through operating alongside like-minded and trusted mid-sized partners with complementary strengths, either on a bilateral or plurilateral basis. While the nature of collective leverage would inevitably mean reliance on at least one other partner, in practice it might be both feasible and desirable (in terms of greater impact) to achieve leverage over an adversary if partners collectively could control a chokepoint. This mirrors the logic of acting collectively on sanctions. But the context is different as the situation we are considering here is the ability and willingness of the coalition to respond to coercion or potential economic coercion.

Governance and process: finding and testing leverage-conferring assets

As this involves a rethinking of UK potential leverage, we propose the following approach to set out how that could be done. The process is designed to move from initial mapping through to stress-testing and wargaming and combines central government coordination with external expertise and engagement with the UK's wider 'flotilla'.

a. **Establish central leadership and mandate**
Responsibility and accountability for identifying and building a portfolio of leverage-conferring assets should sit with the Joint Unit within the Cabinet Office that we have proposed in the section in our capping paper on combining economics and security across government, given that any actual deployment of UK leverage against another country would likely only be needed in a moment of crisis/conflict and would require a Prime Ministerial decision.

b. **A small expert group – a process of discovery**
Applying the framework requires a process of discovery and wider engagement because concepts like substitutability are not readily observable from data alone. One key issue is how feasible and quickly alternatives can be found - this is something the private sector is likely to have more insight in than government. The Cabinet Office should therefore convene a small, non-government expert group – drawing from business, think tanks and academia and including data scientists and specialist expertise (including in deterrence and national security). This small expert group would analyse UK assets against the above framework and produce an initial longlist of assets across economic sectors, which could have the ability to confer leverage. This group would also analyse the variety of potential chokepoints and how they would operate in specific contexts.

c. **'Acceptable asymmetric cost' test**
A core part of applying this framework is determining when the relative benefit of deploying an asset exceeds the cost to the UK of doing so. Restrictions on access to or use of UK assets will involve economic costs. Good policy discipline therefore requires an estimation of those costs against the cost of inaction (accepting the costs of coercion). It also requires understanding the degree of asymmetry with that imposed on the adversary – to help with a test of credibility. This assessment has some parallels to a cost-benefit analysis and the right home for that is in HM Treasury. They should be tasked with undertaking that cost assessment for assets identified in theory. In the context of a specific case, the Chancellor (on advice from the Treasury) would be responsible for a judgement as to whether the test of 'acceptable asymmetric cost' had been met in that specific instance. While the final deployment of any action would be for the Prime Minister, this step would ensure a rigorous cost assessment of any action.

d. Scenario analysis and wargaming

To test the practical application of leverage, the Cabinet Office unit would need to convene tabletop and simulation exercises. These would simulate real-world coercive situations (e.g. supply disruption, sanctions, trade restrictions) and test how the identified UK assets could be used to deter or respond, thereby exposing any gaps in capability, legal authority or coordination. This step would be critical for moving from theoretical leverage towards developing credible and operational tools. It would help identify issues around escalation credibility – does escalation dominance bite? This process would need mechanisms to ensure sufficient information could be shared with the private sector participants.

The above steps illustrate the sort of action needed to develop the mindset and toolkit to be able to deploy leverage when needed. While much of the detail will rightly be restricted and confidential, these kinds of steps – along with the powers discussed below - help bolster credibility of deterrence.

II. Deploying leverage – sharper "anti-coercion" powers

Effective deterrence relies upon the ability to act – to credibly threaten to impose economic cost. That requires both credibility that the cost is bearable (discussed above) and the legal powers, instruments and governance for a government to take a decision and implement it.

All of the major economic blocs have powers

The **US** International Emergency Economic Powers Act 1997 specifically authorises the President to use economic levers in response to an unusual threat to either US security, the US economy or US foreign policy emerging from outside the US. The US has also expanded its control over foreign dispersion of US technology in particular through recent changes to the Foreign Direct Product Rule in 2022. These are broader powers than narrowly in response to economic coercion (though they give the US the legal basis to do that) and the US has deployed them.

The **EU** created a specific Anti-Coercion Instrument in 2023 to give it a clearer legal basis for action (and quicker process in the complex landscape of EU competence and legal structures) and with the stated intention of increasing its deterrence against coercion – though there are debates about the credibility of its use.

China has passed a set of legislation since 2020 in particular that strengthens the legal basis for its control over economic interactions – especially exports (where China is often a single or significant source of specific items) and to increase its extra territorial reach.

Japan has an older piece of legislation from 1949 (amended recently) that it can use to respond to coercion.

The Government has recently issued a call for input on potential powers to protect the UK from coercion which has noted that, for example, the UK lacks a coherent and calibrated basis for responding to coercive pressure affecting services, investment, intellectual property and certain aspects of government procurement. This call for evidence and policy review of powers is a sensible step and consistent with this policy proposal.

We propose that the UK should seek to ensure that its legislative powers:

- **Provide a coherent legal basis for deterrence action across the full modern economy.** What matters in identifying potential leverage are the tests of dominance, non-substitutability and asymmetric costs and the ability to credibly impose costs associated with assets or capabilities that meet those tests. This logic works against excluding specific sectors or specific policy areas a priori.

- **Align as much as possible legal authority to the type of leverage-conferring assets** and the way these might need to be deployed against specific adversaries. Ideally the detailed work of legal instrument design would follow identification of assets.

- **Are built around the principles of transparency, predictable use and graduated response – including negotiate first.** The principle purpose is deterrence and to resolve any dispute that occurs, not escalate. Indeed, one advantage of legislation is that it could set out clearly the process the UK would follow, which increases transparency and predictability. This would mirror the approach taken by the EU. As discussed in our project on building norms for a world of strategic interdependence and economic deterrence, the UK has interest in a more stable system for managing the use of such levers internationally. Embedding principles of transparency, predictability and graduated response in UK policymaking would be consistent with that.

- **Be designed from the outset to operate alongside - and potentially in coordination with - equivalent capabilities in partner countries/allies:** be openly ‘interoperable’ with allies along with diplomatic coordination and engagement to achieve this. For the UK’s legislation, this could include a specific requirement for the Secretary of State to consult allies as part of the use of UK powers and to respond formally to requests from others. The objective should be to maximise the UK's ability to act collectively and for this capability to be credible. This is consistent with the EU’s anti-coercion instrument which requires the Commission to consult and cooperate with any third country affected by the same economic coercion and allows for potentially coordinated responses. Broader consultation and engagement around use would be developed through relevant groups. In our scenarios, those groupings would need to be flexible or multiple enough to be able to respond to a range of potential uses of coercion.

6. Building norms for a world of strategic interdependence and economic deterrence

Proposal

The UK should work internationally to reduce harmful interdependencies and to limit coercive behaviours by developing new international norms and rules. The UK should build on previous efforts to shape new definitions, work with other middle powers to put these definitions into action, for example through collective dependency mapping and resilience building initiatives, and, over time, seek to agree new rules that constrain coercive behaviour. The UK should also seek to build strong economic deterrence through a collective response mechanism amongst its most trusted partners.

Detail

A new challenge

Norm development to counter economic coercion is not a new phenomenon. Five Eyes and CPTPP have all made statements condoning economic coercion; the G7 made important progress through the Coordination Platform on Economic Coercion; and the OECD undertook valuable analysis on cases of coercion. However, much of the momentum developed in 2023 and 2024 reflected a different political environment and today, many countries are increasingly concerned about coercive leverage from multiple directions. A future agenda must therefore be broader, more politically neutral and more durable. The emergence of this more complex coercive environment presents specific risks for middle powers who are often highly trade-dependent economies, exposed to coercion risks and therefore have a strong interest in preserving openness while reducing vulnerability. While countries may differ on particular geopolitical issues, they share a common interest in ensuring that economic interdependence remains compatible with sovereign decision-making and should therefore work together to build new norms and rules to enable this.

Building a better global system for addressing economic coercion

A new framework should be presented as an effort to govern leverage in an era of strategic interdependence rather than as an initiative directed against any single country. All major powers possess leverage and many states seek leverage where they can. A more realistic goal is to develop a shared understanding of the distinction between legitimate and coercive uses of economic power. This approach offers a more credible basis for engagement. It allows middle powers to promote greater predictability, transparency and restraint without requiring the superpowers to accept immediate constraints on their freedom of action. To do this, the Heywood Fellowship recommends the following steps:

1. Building shared definitions
2. Building common understanding through dialogue
3. Establishing a collective anti-coercion response capability
4. Developing shared norms
5. Wider trading system rules reform

Building shared definitions

The Heywood Fellowships suggest that the first step should be building consensus on common concepts. This should include definitions and a deeper understanding of economic coercion itself, on how dependencies manifest, in particular asymmetrical dependency, what resilience in relation to such dependencies looks like, and how leverage and dependency creation differ. The purpose is to build a common analytical framework allowing governments to discuss behaviours using consistent language. Specifically in relation to the concept of 'economic coercion' itself, the Heywood Fellowship proposes the following as the basis for a new international definition: **'the deliberate exploitation of economic relationships, dependencies or market power to influence, compel or deter the sovereign policy choices of another state through the threat or application of economic harm'.** This distinguishes coercion from ordinary commercial competition. Moreover, the purpose of such a definition is not to outlaw all instances of such behaviour but rather to build a deeper and shared understanding of what economic coercion is and isn't. A parallel supporting concept that should be developed is around 'dependency creation' - the development of relationships, often asymmetric and capable of generating leverage.

Building common understanding through dialogue

The Heywood Fellowship proposes the OECD as the most appropriate venue for the first stage of this work. Its analytical role and technical expertise make it well suited to developing common definitions and frameworks. The OECD has already undertaken important work analysing coercion cases and identifying recurring characteristics, including asymmetric dependencies, concentration risks, informal restrictions and politically targeted measures. We do not underestimate the sensitivities, but we think that this is a critical basis for future norms and rule development. This is a systemic issue aimed at reducing negative interdependencies and is not about any specific country and should be a middle-power driven agenda. A dedicated programme, potentially led by the OECD, on strategic interdependence could focus on:

- common definitions of economic coercion, leverage, dependencies and dependency creation
- methodologies for dependency mapping and vulnerability assessment
- analysis of historical coercion cases using a shared framework
- analysis of emerging dependencies linked to technology, investment, finance and strategic capabilities
- development of indicators and early warning tools.

The Heywood Fellowship argues that middle powers in particular have a shared interest in engaging on this agenda. CPTPP, including through its dialogue partnerships, is the most well-suited mechanism to put this analysis into action. CPTPP brings together highly trade-dependent economies, several middle powers, countries exposed to coercion risks and governments with a strong interest in preserving openness while reducing vulnerability. If CPTPP is not able to reach agreement on such an endeavour, a grouping with similar characteristics should be established. The long-term ambition should be a CPTPP strategic interdependence initiative covering:

- regular dependency mapping and resilience assessments
- monitoring of concentration risks and strategic chokepoints
- consultation on emerging coercion concerns
- diversification and resilience partnerships
- exchanges of best practice on responding to economic pressure, including on respective national anti-coercion tools.

There is an opportunity for a more diverse and wider discussion along these lines, including through the CPTPP-EU discussions.

Establishing a collective anti-coercion response capability

Collections of countries, including CPTPP members, could seek to go further than exchanging information and shaping international norms. They could agree to act collectively in response to the coercion of one or more of the membership. For middle powers, anti-coercion instruments and national capability alone are unlikely to provide effective deterrence against the world's largest economies. The deterrence effect of coordinated action by multiple middle powers is likely to be significantly greater than the effect of any single country acting alone. With this in mind, the Heywood Fellowship argues that CPTPP should actively explore how the membership aligns respective national anti-coercion tools and how this could would work in practice. This should also be an area of focus for the CPTPP-EU dialogue – the European Union is a key actor here given its Anti-Coercion Instrument and decision-making approach explicitly allows for cooperation with third parties.

However, we do not underestimate the very real challenges of achieving coordination. Often incentives will differ and therefore the task of building a shared vocabulary, common understanding and dialogue is paramount as a way to build trust and alignment. As we argue in our paper 'the UK's role as a pivotal power: middle power mindset and playbook', trust building around shared interests and strong leadership are critical to make any middle-power cooperation impactful. In this instance, it may be that CPTPP is too large and diverse a group to be able to respond collectively to coercion and that a smaller group could, in fact, be able to agree the right terms for a collective response.

Developing shared norms

As OECD analysis and CPTPP/EU practice mature, it becomes possible to develop broader behavioural expectations, which can be socialised in wider groupings such as the G20 and the WTO. Transparency and proportionality would be critical core disciplines, albeit a long way from current practices, and therefore reaching consensus on how to interpret these concepts relies on building a shared vocabulary and evidence base. This process should focus initially on principles rather than rules. Possible principles might include:

- material economic restrictions should be justified and proportionate
- measures should be transparent and predictable and undertaken through clear (domestic) decision-making processes
- states should seek consultation and negotiation before taking measures
- states should avoid deliberate and systematic creation of asymmetric dependencies for future political leverage.

These principles would not initially be legally binding. Their purpose would be to build common expectations around responsible conduct and gradually increase the reputational costs of coercive behaviour.

A foundation for wider rules reform

Many countries increasingly fear that openness creates vulnerability. Unless those concerns are addressed, support for a more open and integrated trading system is likely to erode further. Building a common understanding of coercion, dependency and leverage is therefore not simply an anti-coercion project, it is a core pillar of wider trading-system reform as we have set out in our project 'Managing Difference: a Global Trading System for 2040'. The work described in this paper would be an important contribution to that wider process. It would establish a new approach to identifying, mitigating and responding to material spillovers, including the development of next generation countermeasures. The ideas in this paper around collective response capability could form the basis of a new reasonable countermeasure that is developed in response to coercion.

GEO-STRATEGIC ECONOMY

7. "NSSIF 2.0" – a fund for national strategic advantage

Proposal

The UK should create a state-backed UK investment vehicle focused on developing and retaining sovereign economic capability, built from the principles and approach of the existing National Security Strategic Investment Fund (NSSIF) but with a broader remit and scale. It could be delivered through an expansion of NSSIF or the creation of a new fund housed in another entity like the National Wealth Fund (NWF). Similar policy conditionality around retaining value in the UK and generating strategic leverage should be applied to a wider range of UK investment instruments, in particular other Public Financial Institutions (PuFINs).

Detail

The Fellowship proposes that the UK create an investment vehicle that could strengthen UK sovereign economic capability across the geo-strategic economy, providing the greatest overall returns to the UK (economic and strategic). The guiding principles for the vehicle would be to do so in a way that (i) actively takes the geo-political and geo-economic context into account, including where the UK needs to develop sovereign assets (ii) enables the state to invest where market failures mean innovation will not occur in the UK, businesses will not scale up or will **exit the UK to grow** (taking value with them).

The role of the vehicle would be to ensure that the UK government is providing patient capital and taking both (a) **upside** in the investment (financial return) and (b) applying **conditionality** that ensures wider policy objectives such as sovereign capability (retention of value in the UK) are met.

There is an existing UK institution to draw from. The NSSIF describes itself as "the government's deep tech venture capital fund for National Security and Defence". It makes targeted investments in specific firms, technologies, or assets where ownership, influence or continuity are assessed to have a direct bearing on the UK's national security. Its investment decisions are made towards strengthening and growing the dual-use ecosystem in the UK so that there is more and better sovereign technology that can be used by the national security and defence community in the UK. Specific features that are of interest for this proposal include:

- The state as strategic investor. The NSSIF has a long-term lens and provides direct capital to firms (through equity stakes and loans).

- The state as strategic customer. The NSSIF supports tech start-ups to help them respond to the “demand signal” coming from government customers through close collaboration with the security and defence establishment. This ensures both that the innovators and firms have a pipeline of (government) customers in the UK and that the state can benefit from frontier innovation.

- Conditionality to meet wider policy objectives. The NSSIF negotiates “investor consent rights” as part of its investments. These might involve preventing intellectual property from being transferred or licensed to foreign jurisdictions, the right to block sale to foreign acquirers, or veto power over moving physical R&D outside the UK. Importantly, these link to the (newer) National Security and Investment Act (NSIA) – so events or decisions that trigger these consent rights also trigger an NSIA investigation. This happened recently with a US buyer seeking to acquire a UK quantum company that had been funded by the NSSIF. Conditions were attached by the NSIA review to keep physical assets and staff in the UK. This approach helps ensure UK economic security is protected as part of the lifecycle of investment and firm growth.

However, the NSSIF is narrowly focused on dual use technology and the defence and intelligence community. Our proposal would be to take this model and apply it to a broader scope of investable assets where the UK has an interest in economic (often technological) capability and wants to strengthen UK sovereignty and value retention. This would include:

- **A wider scope** to cover the geo-strategic economy (as defined in our capping paper). It would capture that set of economic capabilities where sovereignty is a core driver (and hence conditions over exit matter), not just the narrower scope of dual use or defence.
- **Expanded scale.** The NSSIF has had an increase in its budget to £330m to invest over the next three years (to 2028/29). But this is still small compared to total venture capital investment in the UK annually of around £8bn (more than £20bn over three years). By comparison, British International Investment (BII) - the UK’s financial institution that invests in businesses growing in developing country and emerging market partners - has a portfolio of £10bn. If the NSSIF was brought to the same scale in relation to the UK economy as BII is to the ODA eligible market it serves, it would bring the NSSIF’s budget closer to £1bn. [21]

[21] https://www.ukprivatecapital.co.uk/resource/venture-capital-in-the-uk-2026.html?_gl=1*wli6jq*_up*MQ..*_ga*MTExNjg2MTYwMC4xNzg0Mjk0MjI4*_ga_8DDVW7KWNP*czE3ODQyOTQyMjckbzEkZzEkdDE3ODQyOTQyNzYkajExJGwwJGgw

Driving Returns – public upside

Financial

Venture capital investment gives government a stake in the businesses and a potential financial upside at the point of sale or exit. Across a portfolio, this should generate positive financial returns to the UK exchequer. A key design feature would be to ensure this fund was structurally patient. The current NSSIF is not an institution but a fund on a department's balance sheet. This proposition would need a permanent capital base and for HMG not to demand returns too early and so there may be a case for housing it in a more arm's length financial institution like the NWF or British Business Bank (BBB). It could have a policy to recycle and reinvest exits and not return them to HM Treasury as they currently do - indeed BII does this sort of patient investing on the international development side and recycles its returns. The case here is for genuinely strategic, long-term interventions because ownership and use of the assets being developed matters, not just the innovation and financial returns.

Technological

A second potential upside for the state is a role as first consumer of the innovations or technologies themselves once developed. This would mirror what the NSSIF does for the national security community but for a wider set of ministries or organs of the state. There could be collaborative discussions on the innovations the state needs (like the NSSIF) and a right of first refusal for government to buy products, innovations or services – a decision gateway – when investing in businesses through this vehicle.

Policy Conditionality

Active decisions on sovereignty at exit stage.

The fund would replicate and use the conditions that the NSSIF sometimes uses that engage sovereignty – the investor consent rights. The key point would be to ensure that exit does not result in a loss of the core capability from the UK, for example, through clauses that prevent sale to foreign acquirers or loss of intellectual property from the UK. A direct link between these investments and the NSIA is useful and policy consistent because the NSIA is the UK's mechanism to review exits that involve foreign investors, in particular, and to impose conditions where necessary.

A broader approach – policy conditionality and mandates

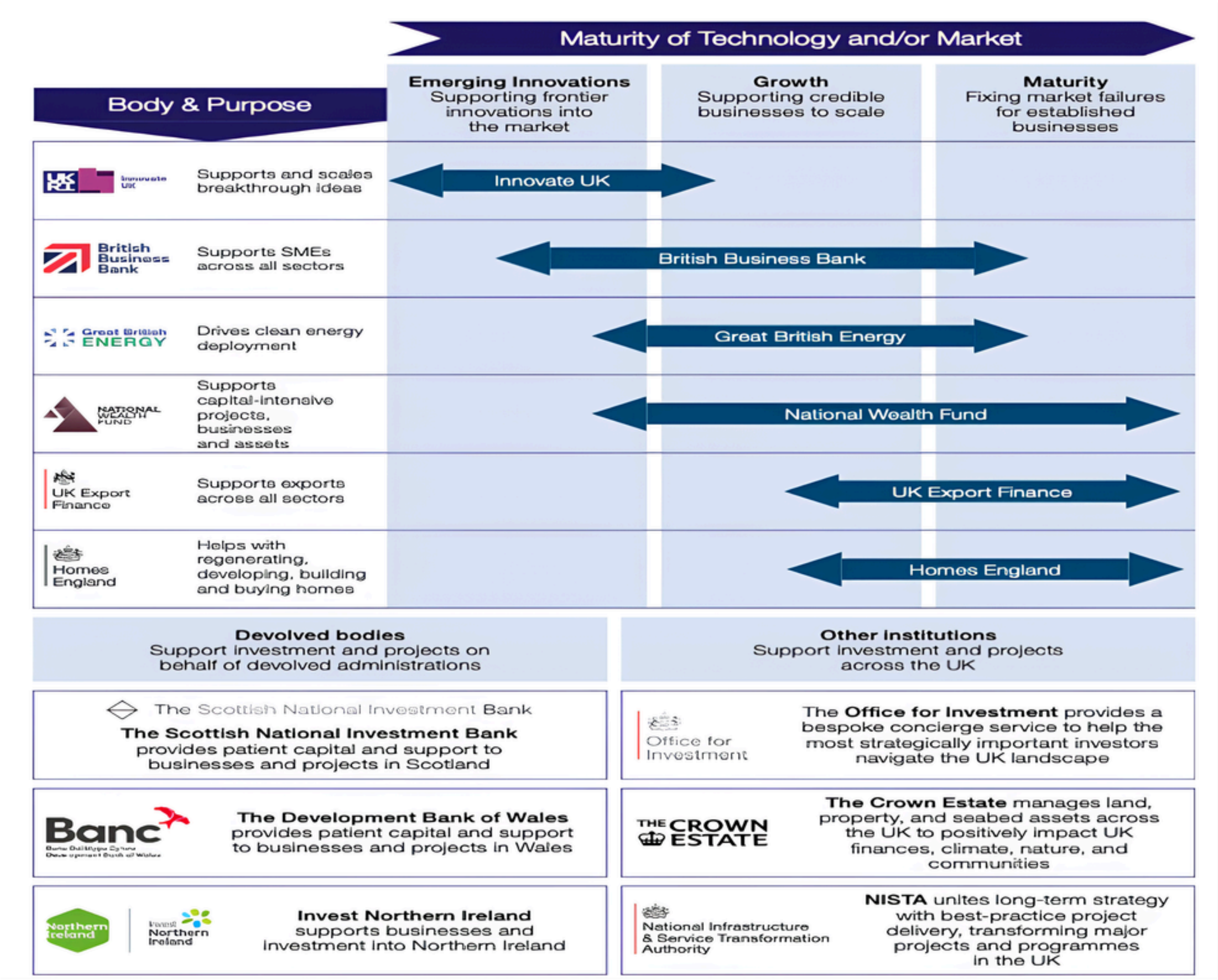
The core of this proposal is that government-backed investments should take the wider geo-strategic context into account. Recalling our definition: the **geo-strategic economy** encompasses "assets or capabilities that are highly globally integrated and rivalrous today and are material to the survival and resilience of the nation (under threat) or to economic strategic advantage". Specific assets or capabilities will demonstrate "externalities" that create policy risks of concentration or dependency (negative externalities), or fundamental opportunities for strategic advantage (positive externalities). For these assets or capabilities, the UK's current approach is likely to result in under-investment and under-retention in the UK.

An alternative way to conceive of this proposal is therefore that all of the UK's state backed **investments and industrial strategy interventions in the geo-strategic economy should apply the policy conditionality of the NSSIF** - especially those around sovereignty and retaining value in the UK - as well as focusing on state upside through financial returns and as a customer of the asset itself. This would mean applying policy conditions to other government-backed equity investments (in other funds like the NWF, Great British Energy etc) as well as to loan programmes, grants and tax incentives.

Going further to align our industrial/economic interventions with the strategic context, state-backed investment vehicles could also be **mandated to pursue the creation of UK strategic leverage,** not just growth. This would aim to shift strategic decision making to bring it more in line with the need to take the geo-economic context into account when making investments. What is geo-strategic is partly a function of how other actors are behaving and the choices they are making (is it rivalrous?), not just economic metrics.

The UK's public investment landscape consists of a range of PuFINs that deliver and support investment in the UK.[22] While some PuFINs' mandates refer to supporting strategically important companies, and there are good examples of them helping to support and scale UK capabilities in sensitive technology and security sectors, the term 'strategically important' is not clearly defined and current mandates do not explicitly require the PuFINs to develop strategic advantage for the UK relative to other states.

[22] An introduction to the UK public investment landscape



The current Government's Industrial Strategy makes clear that, alongside growth creation, public finance should be deployed strategically to strengthen the UK's economic and national security[23] . Under this approach, the PuFINs are expected to collaborate through a new Public Investment Roundtable, directing more investment into economic security with metrics to assess impact. Nevertheless, the interventions listed in the Strategy are focused primarily on resilience, not leverage.

Altering the statutory objectives of the relevant institutions is likely to require primary legislation. However, leverage could be embedded as a strategic objective without requiring new legislation, while also preserving market credibility and institutional independence. Depending on the institution, this might involve negotiations towards revising a framework document or statement of strategic priorities, or a written steer through another means – as was the case with the new language on resilience in the Industrial Strategy. Informal dialogue with the private sector would also be important to familiarise businesses with the concept.

[23] the-uks-modern-industrial-strategy-2025

To require consideration of leverage in the statements of strategic priorities or mandates of existing PuFINS, the Government could introduce a clause with wording along the following lines:

> ***"To the extent that the United Kingdom has identified leverage-conferring assets, in exercising its functions the [institution] should have regard to supporting the quality, scalability and sustainability of those assets thereby strengthening the United Kingdom's ability to influence the behaviour of other actors."***

Additional language could also oblige each relevant PuFIN to alert the Government in good time if they have themselves identified an asset with the potential to confer leverage. This would allow the Government time to consider intervention before an asset is acquired by a foreign state, for example. This could be worded as follows:

> ***"Where the [institution] identifies a leverage-conferring asset, or reasonably considers that one may exist, the [institution] should notify the Secretary of State as soon as reasonably practicable and provide such information as the Secretary of State may reasonably require to assess its significance".***

We assess that the following PuFINs would be the most relevant, given the type of investments and sectors that they cover: the BBB, NWF, UK Research & Innovation (UKRI), UK Export Finance (UKEF) and Great British Energy.

8. International industrial and economic collaborations – the new international economic policy agenda

Proposal

The UK should:

- develop a programme of investment in sovereign economic capabilities in collaboration with other countries, through trusted clubs. It should focus this portfolio on the UK's interests in the geo-strategic economy.

- ensure that negotiating and delivering these forms of cooperation becomes a standing part of our international economic capability.

- commission the OECD to do a study of international industrial policy cooperation models, focusing on effectiveness, impact and what works.

Detail

Building sovereign capability and resilience through clubs or cooperation may seem counterintuitive to national sovereignty. However, our definition of sovereignty and strategic advantage is about (a) sufficient control and (b) retaining an edge over adversaries. Neither of these preclude cooperation. And our thesis in this fellowship is to recognise the UK as a mid-sized economy starting from a very open economic position. The question for mid-sized and smaller powers is when and how they are willing to do cooperate or pool to strengthen control and/or advantage, not whether.

Economic theory has recognised this, for example Mancur Olsen's Theory of Clubs, which developed the concept of 'club goods' as those that are between fully private goods and public goods. Club goods are excludable (the benefits can be given only to members) and non-rival up to a point (when congestion takes over and the value declines). Similarly the 'Stag hunt' version of game theory shows that there can be value to cooperating when there are better returns if you work together (some form of efficiencies or better scale possible).

Building out from this you might expect to see international cooperation on industrial and strategic capabilities when the following conditions hold:

- There is a **collective** desire for **optionality**, with a concentration of supply globally. There is a shared interest in developing an alternative capability in a specific context.

- **Economies of scale** exist – when the scale of production required is too big for any small- or medium-sized economy to have the full capacity alone.

- **There is something exclusive or excludable at stake** – the collaboration can develop a type of IP or technology that can be excluded to others (ie it is not a pure public good) so it is possible to create a club.

- **There are persistent, shared benefits** of being in the club and these are agreed in rules. These might include jobs, investment, share of production.

- **No one partner is dominant** – to enable reasonable forms of mutually agreeable outcomes. This is where a collection of smaller or medium sized economies may find bargaining easier to do.

- There is high and sustainable **trust** among group of nations.

- There is scope to generate **leverage** or strategic influence that could be deployed collectively. This links to our related work on generating leverage. The collaboration could create the kind of assets that generate leverage, for example through being at the frontier or through the creation of a unique capability with limited substitutability.

This might seem like a high bar. And it will rule out collaboration and pooling for some capabilities at some points in time: these conditions will not always hold. It is also important to note that there are also some features of collaboration itself which may increase costs. One British review of Airbus fairly early on looked at the microeconomics of the aircraft industry and, while noting the potential economies of scale from international collaboration, also pointed out that costs are sometimes higher due to factors such as: workshare agreements being based on national financial contributions rather than efficiency ("juste retour" principle), protracted negotiations creating delays, and the range of customer demands meaning technological specifications may not be as close to an individual country's needs[24] .

[24] The Elstub Report 1969

However, this form of strategic international industrial and economic collaboration does happen successfully. The UK has done this in the past on frontier technology and where there was a strategic case for more optionality, advantage and control. Two examples are (i) the UK partnering with Germany and the Netherlands to develop nuclear enrichment technology through a collectively owned (but commercially run) company called URENCO (established in the 1960s and still operating today) and (ii) in the more well-known example of European cooperation to develop and build commercial aircraft – and create an alternative to US dominance in Boeing - through the creation of Airbus. Both of these examples are discussed in detail in the accompanying paper on the History of British economic statecraft. A more recent example is the multi-year cooperation between the UK, Italy and Japan (the Global Combat Air Programme) to manufacture next generation fighter jets, which includes technology pooling.

There has also been a growth of this sort of industrial policy collaboration since 2020, directly informed by the current global context. It is mostly focused in advanced technology and defence and therefore consistent with our proposed scope of geo-strategic economic capabilities. These arrangements have in common elements that include (i) pooling and expanding finance, (ii) formal policy agreement: negotiated cooperation either through treaties or MOUs and (iii) diverse and bespoke memberships: clubs are forming around shared interests and capabilities, not just regionals/geography or existing structures (like the G7). International industrial policy cooperation is therefore becoming a part of the international economic policy landscape and there are options for the UK to both join existing collaborations and shape new ones. Indeed, one recent academic paper by Hoekman and Norman argues that industrial policy cooperation and coordination is a key frontier for effective "trade" cooperation today.[25]

We therefore propose that the UK should develop a defined portfolio of international collaboration focused on the geo-strategic economy – and that draws on the theory of where collaboration is most likely to be effective and on the lessons of past examples and experience for what works in practice.

[25] Hoekman & Norman https://www.cambridge.org/core/journals/world-trade-review/article/industrial-policy-and-international-cooperation/48B261E7625507CE70904B5ADC0A3CBF

The portfolio should focus on the geo-strategic economy. Across this space, there is work in hand. GCAP is good existing example on defence industrial collaboration. Outside government, recent work by the Clean Technology Partnerships Initiative has identified 8 core clean technologies and 10 priority supply chains where there is a case for coordinated action. Using a similar frame to our work, they conclude that in these areas, "vulnerabilities are concentrated in specific segments of the value chain, many of which apply to several technologies; domestic action alone would be insufficient to mitigate the vulnerability; and targeted partnerships can materially reduce exposure".[26] They also define 5 partnership models. These would be the places to start and build from.

International coordination would need the following elements:

i. **Shared analysis of the geo-strategic economy**
Especially the dependency risks and where there is a strong case for collective action (eg identifying where externalities like economies of scale are present). This should be shared and credible to help focus efforts at most acute points. This could be nationally done or through a body like the OECD.

ii. **Appropriate choice of policy instrument**
This is really a choice about what form of industrial (or economic) policy intervention to use, albeit in an international context. The OECD has a handbook and taxonomy of industrial policy interventions, noting that the main instruments can be thought of in terms of (i) impacting supply (within or between firms) or (ii) demand. All such industrial policy interventions have international forms. For example on the demand side, Advanced Market Commitments like GAVI are international partnerships to pool demand. Airbus – with commitments to both buy planes and provide launch aid – had a combination of demand and supply support from its national partners.

iii. **Identification of international partners**
Our assessment of case studies suggests there will need to be a careful process to identify credible and sustainable partners. This is likely to be lengthy and involve working with a wider set of options and then narrowing down, through identifying shared interests and where there are capabilities that are mutually compatible, as well as sufficient political commitment.

[26] https://cleantechpartnerships.com/publications/

iv. **Partnership with the private sector**
All of our historic case studies have involved the government working with the private sector and/or creating public private partnerships or commercial entities to deliver. Our historical case studies show specifically that the private sector can be crucial in initiating the initial collaboration and sustaining it, as well as delivering it.

v. **Terms of entry**
All international collaborations will need a clear sense of what partners need to do to join the 'club' or collaboration and what the membership terms grant. These may need to be quite detailed - like production shares in Airbus.

vi. **Agreements or contracts to formalise and sustain the cooperation**
This could be a Treaty (Urenco) or an MOU (Airbus) but some form of state involvement will be essential and a way of managing sustained political commitment. Another lesson from history is that managed exit clauses are also important (they were used by the UK in Airbus and a lack of them caused issues in Concorde Treaty). There will also be a need for some form of governance to oversee coordination.

vii. **Pooling of financial resources**
The UK will have to bring some financial firepower to collaborations, even if they are cheaper (fiscally) than a purely national solution. The UK needs to develop a clearer strategic sense of what part of the UK balance sheet and financial institutional architecture it uses to support these interventions. At the moment we risk a messy answer that comes from a combination of UKEF, BBB, National Wealth Fund, Great British Energy, BII or departmental capital budgets depending on the sector and partner country – none of whom have the mandate tasked to do this (though it is linked to their mandate). There is a real risk therefore that available funding streams dictate UK strategy rather than the other way round. One way to solve this would be to adopt our related proposal for a British fund for National Strategic Advantage ("NSSIF 2.0"), which would be the lead organisation for funding UK strategic economic capabilities and could be the core organisation to fund such international collaborations.

Over the timeline to 2040, this should be seen as a new branch of UK international policy cooperation and not a set of ad hoc deals or reliant on the enthusiasm of a single minster. A good strategy for the UK would be to develop standing capability and expertise in doing this and efficient models of cooperation.

Finally, beyond case studies, there is not a robust evidence base on what works in cross country industrial and economic collaboration from an effectiveness and efficiency perspective. The UK should commission the OECD to do a study of what works in international cooperation on industrial policy. The OECD has undertaken lots of peer review of national IS policies and produced a handbook but they have not studied what forms of cooperation are most effective, when and how. They have the skills to do this and could produce some similar guidelines or playbook.

Annex: Recent examples of collective industrial strategy

Name	Members	Date started	Function
EU Chips Act Chips Act 2.0	European Union	2023 2026	Pooling different parts of semiconductor supply chain to build capability within EU. EUR 50bn – mix of EU funds and national budgets. Mix of R&D, industrial investment and a coordinating framework across EU member states, with implementation largely left to national level. Germany – fabs/factories, Netherlands – lithography machines, Fr/Belg – chip design and research Scale of additional funds (leverage of private sector investment) smaller than in Japan or US.
EU Battery Alliance	European Union governments and private sector	2017	Focused on developing an EU-wide sustainable battery supply chain. EIB funding Some battery projects considered an Important Project of Common European Interest (IPCEU) and have more flexible state aid treatment.
Chip 4 Alliance	US, Jap, S Korea, Taiwan Note: These are the top 4 semiconductor producing nations outside China (80% global market and 99% of memory chips)	2022	Loose coordination on semiconductors. 3 goals - Support industry to diversify - Protect IP of member countries - Policy coordination on export of most advanced semiconductors

Minerals Security Partnership Now called - "Forum on Resource and Geostrategic Engagement" (FORGE)	US + 14 partners including Can, Jap, S Korea, Aus, UK	2022 2026	Collaboration on pooling finance for mining, refining and recycling. Biden Admin more focused on this element. Policy alignment - trade barriers/rules, reference prices, border adjusted price floors. Based on a web of bilateral MOUs and Action Plans. Over 20 altogether. Plus potential plurilateral agreement on preferential trade zone with price floors (and so giving stronger
Pax Silica	US + 22 Core includes Jap, Israel, Aus, Singapore, S Korea, UK EU, Neths and UAE since joined (note – no ASEAN or India)	2025	Focus on AI and supply chain security, especially semiconductors. State Dept sees this coalition as "what the G7 was to the industrial era". One commentator says it separates the world into (a) allies and (b) clients. Allies get to be part of production chain – inside a "silicon curtain". Clients can buy chips and services but on terms set by Washington. For allies: Pools public and private capital (including a US investment consortium) to build mineral refining plants and data centres. Policy alignment on export controls, inward investment screening, anti-dumping and shared reserves/stockpiles
Global Clean Power Alliance	UK led 14 members including EU, Canada, Brazil, Morocco, Barbados etc Intentionally with global south and north.	2024	Cooperation to collectively move forward with clean energy transition. Areas of focus - Clean energy finance – UK and Brazil led - S-chains: electricity transmission, circularity, data

Defence Security and Resilience Bank (DSRB)	Multilateral. Not for profit group led by "Development Group". With support of private banks. Strong Canadian government backing	2025/26	An international financial institution to pool finance for defence spending. Paid in and callable capital pooled to lower borrowing costs and lend longer term. Lends to both - Sovereign states - Private sector – defence primes, S-chain SMEs directly and via guarantees to banks Might also have common procurement and technical standards to increase interoperability, while leaving specific procurement decisions with national governments.
SAFE	EU member states. Open to non-EU allies with formal security ties to participate in procurement contracts (as producers).		Gives loans to EU member states to invest in defence. Eg to Poland and Lithuania.
AUKUS	UK, Aus, US	2021	Pooling of development of specific class of nuclear powered submarines. Related collaboration on AI, quantum, hypersonic etc.
Quantum Development Group	US plus 12 members UK, Aus, Can, Korea, Finland, Switzerland etc UK hosted summit in April 2026	2024 under Biden Admin	Loose collaboration around quantum. Focused on - Research and s-chain security - Collaboration to expand capital and investment - Standards development and interoperability

9. Managing difference: a global trading system for 2040

Proposal

The UK should champion a new mission for the global trading system – specifically the WTO rulebook – for 2040. A reformed global trading system and WTO rulebook should enable and manage difference in a context of strategic competition. To do so, we propose creating a new category within the global trading system rulebook where states enjoy more freedom of action to achieve security, resilience and strategic advantage objectives but in return for robust, next generation disciplines. Critically, the creation of this new category should be accompanied by a re-clarification of the National Security exception, as it was traditionally understood, and a commitment to openness in non-strategic sectors. We argue that without updating the mission and operating framework of the global trading system, current reform efforts will fall short and will not provide the reset that the system requires. The UK should work with others – in particular other middle powers through CPTPP and its dialogue with the EU - to drive this agenda and should use its G20 and G7 Presidencies to incrementally build support for such a reform.

Detail

Core organising principle: from convergence to managing difference

The Heywood Fellowship argues that 'managing difference' must now become a core organising principle for a future trading system. Rather than assuming convergence, it accepts the persistence of diverse economic models – and a backdrop of geo-strategic competition. The objective is not to harmonise but to enable cooperation, competition and coexistence despite difference. The UK government has already taken a step in this direction. In its WTO reform paper of March 2026, it sets out its vision for the global trading system as an '[..] organisation [..] that allows for a greater diversity of economic models and better manages the negative externalities this diversity create'.[27] We argue that this shift effectively translates 'secure openness' into the trading system and helps to retain as many of the benefits of openness as possible while recognising the legitimacy of resilience, security and influence objectives. It recognises that countries may legitimately seek to reduce vulnerabilities, preserve critical capabilities and develop strategically significant technologies. Fundamentally, the Heywood Fellowship argues that this shift in mindset is necessary to mitigate against the global spillovers of an ever-growing number of unchecked distortions and ultimately to preserve a global trading system rulebook.

[27] https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/GC/W993.pdf&Open=True

Drawing the line

'Managing difference' is essentially about enabling more flexibility in international rules and policy space at a national level. We argue that this flexibility and freedom of action reflect the existing reality and to ignore this reality risks the whole system collapsing. However, this flexibility needs to be bound tightly and clearly. It needs to create a new space between national security and maximum openness and in doing so ensure both the national security exception is only used for its intended purpose and preserves existing open trading arrangements in significant segments of the global economy. To do this, the Heywood Fellowship proposes using our definition of the geostrategic economy as set out in our capping paper as the basis of discussions. Reaching agreement at a global level on such a definition and which parts of the economy or capabilities different countries would regard as meeting this definition would be highly challenging. Nevertheless, we argue that this debate is not without precedent, i.e. there are already sectors of the economy where exceptions apply or which allow for special treatment for security-related parts of the economy. This framework goes further and recognises that governments are increasingly seeking to ensure that they remain meaningful participants in the technologies, industries and systems likely to shape the future economy. In practice, countries are not competing only to be secure, they are also competing to avoid irrelevance. Whether one agrees with the legitimacy of such objectives is ultimately less important than recognising that they are increasingly driving state behaviour. A framework designed for the world of 2040 must acknowledge this reality.

The 'Grand Bargain'

Where an economic capability has been identified as geo-strategic, governments should retain substantial flexibility in the methods they use to preserve, secure or develop these capabilities. Our framework does not seek to prescribe a narrow list of permissible instruments, but rather it starts from a presumption that some strategic capability-building is legitimate. For example, states could increase tariffs, including on specific countries or subsidise in support of domestic goods. Central to creating more flexibility is a commitment to meaningful disciplines to ensure the flexibilities are being used appropriately and to mitigate the most harmful potential consequences of such flexibilities. Countries would gain greater legitimacy for capability preservation, resilience measures, strategic investment and capability development and in exchange they would accept stronger obligations. Furthermore, the bargain would need to also include a re-commitment by states to use the National Security exception, i.e. as it has traditionally been understood and by exception, and to commit to open trade practices in the remaining non-strategic parts of the economy.

Next generation disciplines for a new world

For this new flexibility to work effectively, the Heywood Fellowship suggests six core planks to a new next generation disciplines framework. Our projects on 'Building Norms for a World of Strategic Interdependence and Economic Deterrence' and 'International Industrial and Economic Collaborations – the New International Economic Policy Agenda' should be seen as complementary to the ideas set out here:

1. ***A reasonableness test:***
on the basis that countries can intervene as they see fit in the defined areas, countries should be able to demonstrate that the policy or measure that they are implementing is reasonable, and not excessive, in terms of being 'material to the survival and resilience of the nation or to economic strategic advantage', as per our definition.

2. ***Transparency, notification and consultation:***
arguably the central plank, this should require and normalise regular and frank information exchange, consultation and dialogue on measures that countries are taking to build and preserve the defined capabilities. For example, countries would be required to present and explain their industrial strategies and policies, taking account of the reasonableness test explained above. This process should seek to build trust, increase understanding of respective objectives, explore potential negative spillovers and mitigate the potential for disputes. It would see industrial policy discussions being brought into the trading system as suggested Bernard Hoekman in his recent paper 'Industrial Policy and International Cooperation' [28] .

3. ***Cooperation:***
a future trading system should identify and promote opportunities for cooperation as actively as it identifies sources of disagreement. Dialogue and consultation should enable and incentivise countries to identify complementary strengths, opportunities for collective resilience and areas where trusted partnerships make more sense than purely national and overly inefficient approaches. This function is particularly important for middle powers whose prosperity depends on participation in such networks. It would drive the creation of plurilateral and 'clubs' as legitimate outcomes and as integral parts of a wider global trading system architecture.

[28] https://www.cambridge.org/core/journals/world-trade-review/article/industrial-policy-and-international-cooperation/48B261E7625507CE70904B5ADC0A3CBF

4 ***Spillover management:***
the future system should focus less on whether intervention occurs and more on its effects on other countries or global trade balances. While greater flexibilities have the potential to create spillovers, the greater focus on transparency, consultation and dialogue in these specific areas of the economy and on the basis of ‘reasonableness’ is designed to limit material spillovers. However, at the same time, there needs to be a new definition of material spillovers. These are spillovers that significantly undermine others' ability to pursue legitimate strategic objectives. The Heywood Fellowship proposes five initial areas of problematic behaviour and material spillover that should be further developed and defined:

- persistent overcapacity
- capability building suppression
- persistent dominance-seeking conduct, including of specific markets
- deliberate and systemic dependency creation
- coercive behaviours

This also requires a new function of the global trading system to be developed so that these trends and behaviours can be systematically monitored and analysed to inform actions to manage such material spillovers.

5 ***Disputes and countermeasures:***
as outlined earlier, this new framework should promote dialogue over disputes. However, disputes will, of course, arise and will need to be managed. While the Heywood Fellowship is not offering a particular perspective on an appropriate dispute settlement mechanism, in line with the broader organising principle of managing difference, we would posit that the next phase of trading-system reform may require a greater reliance on soft-law approaches than characterised the high-water mark of the WTO system. This would not be unprecedented. Much of modern international governance, for example the OECD Guidelines for Multinational Enterprises or Basel banking standards, relies primarily on transparency, reporting, peer review, consultation and shared expectations rather than binding adjudication. Such approaches are often more durable where countries possess significantly different economic models and strategic priorities.

A new toolbox of countermeasures would also need to be developed that reflected a new world and effectively and innovatively dealt with persistent problematic behaviours, for example by enabling collective responses. For example, in response to dependency creation, countries should be able to work together to take collective actions to mitigate the effects, such as erecting tariff walls.

6 ***Anti-coercion:***
each of the spillover concepts we have suggested would require significant development and definition. However, the Heywood Fellowship argues that efforts to create new anti-coercion norms and rules should be prioritised. These should be grounded in a greater understanding of economic interdependencies and coercive behaviours which could evolve into stronger expectations around conduct and collective responses. See our project on 'building norms for a world of strategic interdependence and economic deterrence' for the Heywood Fellowship's view on a stand-alone programme of anti-coercion norm creation.

The building blocks of a multi-speed trading system

The Heywood Fellowship argues that building a new trading system is of particular interest to middle powers. This is the middle powers agenda to drive and we set out the mindset that the UK and others should adopt in this endeavour in our paper 'The UK's Role as a Pivotal Power: A Middle Power Mindset and Playbook'. This is also where CPTPP, including through the CPTPP-EU dialogue, has a critical and central role to play. Currently, CPTPP is mainly seen through the lens of market access and diversification. However, it could have two simultaneously important roles:

- Coordinating to proactively advocate to shape a new global system that can work for all

- Deepening integration and openness amongst a growing membership and dialogue partners

The UK has an important role to play in transforming CPTPP from how it was originally conceived to a strategic node of the new global trading system. Indeed, to achieve these goals, CPTPP itself may need to reform to be able to be more agile, particularly in terms of its role in shaping the global trading systems where there should be more ability to act as a venue and conduit, and to invite other interested parties in without undermining the terms of the trade agreement itself.

CPTPP should also only be seen as one part of the equation. Smaller groups should become a permanent feature of the trading system. The Heywood Fellowship believes that the steady state of a new trading system should provide a more durable and flexible framework for all countries and within which smaller groupings and agreements should be enabled and in parallel with an ever-growing network of bilateral agreements and FTAs. It will be a patchwork quilt of different agreements, often more targeted or deeper agreements among countries whose interests align. Plurilateralism and mini-laterals should be facilitated and supported by a wider trading system framework rather than rejected as counter to the principles of multilateralism. Importantly, FTAs, plurilaterals and clubs should, where appropriate, enable deep commitments to openness based on trust and mutual interests.

Getting started

Resetting the global trading system in the way that we describe in this paper is a significant and long-term endeavour. Indeed, we have only focused on one aspect, albeit it a foundational one, and even so in relatively broad-brush terms. Nevertheless, we have also referred to work to re-clarify the National Security exception, to work to promote and commit to maximum openness in non-strategic sectors as well as the work of middle powers to build new and deep partnerships. Implicit in our proposals is a fundamental review of dispute settlement and trade defence tools. In short, this paper is not designed to provide a full and comprehensive plan to build a new trading system. However, this paper does seek to provoke a debate on reframing what we want the trading system to do today and out to 2040.

With a 2040 goal in mind, we need to start somewhere. The Heywood Fellowship recommends that such a project starts small: by building a new shared vocabulary around a new vision and organising principle for the trading system, around ‘managing difference’, ‘secure openness’, ‘the geo-strategic economy, and ‘spillover management’. This could subsequently be supplemented by strategic capability mapping exercises which itself could lead to the formation of new partnerships. As we have set out, CPTPP should be both the laboratory and control centre for this. The UK’s G20 Presidency, followed by South Korea’s G20 Presidency in 2028 provide the opportunity to build a wider coalition, including with China, the US and India.

CREATING SECURE MARKETS

10. Shaping the future digital economy

Proposal

The UK should reframe its approach to the digital economy in line with Building Secure Openness and drive a 15-year strategy of shaping norms (standards and regulations) to preserve and expand digital economy openness, with trusted partners, on as broad as basis as is feasible. This should include strengthening and plurilateralising approaches around Data Free Flow With Trust (DFFT), and stabilising openness where trust already exists, including with the EU on data adequacy.

Detail

The UK has a deep strength and relative advantage in the digital economy and this is likely to endure through our 15-year timeframe. Indeed, if the task were to shape a global trading system today, the focus would begin in the digital space. The UK has rightly seen this as an area of focus and has had strategies on digital trade under both Conservative and Labour governments and has recently published a strategy on digital standards. But these have largely been based on pursuing openness.[29] The digital and technology domain in particular is being fundamentally reshaped by the changing GEO and the UK needs to adapt and sharpen its approach – engaging on security and strategic advantage as well as openness and acting to play more of a 'norm entrepreneur' role.

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[29] Digital Trade Strategy 2021 Under Johnson government
https://www.gov.uk/government/publications/digital-trade-objectives-and-vision/digital-trade-objectives
Trade Strategy July 2025 under Starmer government
https://www.gov.uk/government/publications/digital-trade-objectives-and-vision/digital-trade-objectives
Digital Standards Strategy
https://www.gov.uk/government/publications/shaping-tomorrow-the-uks-digital-standards-strategy-2026-to-2030/shaping-tomorrow-the-uks-digital-standards-strategy-2026-to-2030

Box 1: UK Strengths in Digital Economy and Trade

- The UK has a comparative advantage in digital trade. More than half of our exports (around 55%) are digital. This is well above the EU and OECD average of around 30% and the USA (40%) and China (15%).
- This trade is more dynamic: In the UK, the share of digital exports in overall exports has doubled 1995 to 2020 – it's a faster growing segment of our trade.
- Most of it is services for the UK: 30% digital trade is financial services, another 24% is professional and business services.
- Our two biggest markets for digital trade are the US and the EU – they account for around 30% digital exports each. Our digital infrastructure also faces across the Atlantic and to the EU.

Source OECD: Study of UK Digital Trade Sept 2024

Applying Building Secure Openness to today's digital economy

The digital economy as it emerged from the internet was, arguably, 'hyper-globalised' from the beginning. For example, the longstanding WTO agreement not to impose any tariffs on ecommerce left the digital economy more open compared to physical goods trade, where some tariffs remain, despite decades of negotiations. Likewise, the lack of national standards or norms on data in many countries (or among groups of countries) allowed significant movements of data across national borders.

The rise of the geo-strategic economy

However, parts of the digital economy are becoming geo-strategic as countries care about both potential material risks from the digital economy (e.g. cyber attacks) and its potential to drive strategic advantage (e.g. in data and AI).[30] The terrain is becoming more rivalrous in some parts. As a result, digital trade barriers have doubled in the past 10 years.[31] The number of data-localisation measures in force around the world has more than doubled in four years.[32] The agreement on an ecommerce tariff moratorium fell at the WTO in 2026, reflecting at heart a lack of consensus on whether there need to be rules to accompany the 'no taxation' (no tariff) principle. And there is a growing discussion in the national security space of data as a strategic national asset and the rise of 'data sovereignty' as a concept and legitimate policy focus.

[30] We define what we mean by the geo-strategic economy in the capping paper
[31] https://www.thecityuk.com/media/owedzyoh/digital-trade-a-commercially-viable-approach.pdf
https://cepr.org/voxeu/columns/cost-data-protectionism
[32] In 2017, 35 countries had implemented 67 such barriers. By 2021, 62 countries had imposed 144 restrictions—and dozens more are under consideration. Note – this survey includes 2 UK measures (on NHS data and Companies House records from 2014 and 2006 respectively).

Different policy approaches – managing difference globally

The three largest economies are pursing different policy approaches – raising issues of how to manage spillovers from embedded, structural differences (as well as strategic competition). To take data as an example, China has one of most data restrictive models in cross border terms, combined with authoritarian control at home. The European Union has an approach based around developing its own internal single market to increase internal trade and regulating to achieve wider policy objectives (e.g. consumer protection through GDPR) - combined with market access for trusted partners through 'data adequacy' decisions (an EU decision on whether a third country's data regulations are adequate to allow data to be exchanged). The EU also has an increasing focus on sovereignty as set out in a recent European Strategy for Data.[33] The US has no federal level regulation of data and is home to large volumes of data and lots of digital innovation, while also seeing growing domestic debates around data equity and privacy. There is also an emerging middle power approach. Japan has proposed a concept around Data Free Flow with Trust (see below). India has proposed a focus on data for development. All partners are developing and shifting policy in the light of re-assessment of both risks and opportunities from new innovation (e.g. on social media use).

Global conversations around the digital economy are therefore contested. Norms are not set. And it is all happening in a highly integrated context. Countries with market power are moving ahead and setting terms for the digital economy. One recent study by a UK trade body concluded "China, India, and Indonesia have passed [data] localisation laws. Many financial and related professional services institutions have decided that the scale of these countries' internal markets justified remaining in the market and establishing local servers."[34]

UK resilience at risk

The UK would be exposed to a widespread reversal of the open digital economy. A recent Frontier Economics study assessed that, if there were a shift to tight restrictions on cross border flows of data among a set of UK trading partners, the UK would experience an 8.6% drop in exports and a 2.3% reduction GVA. The UK is more affected than others in part because the impact on services trade is larger when data flows are restricted.[35]

[33] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020DC0066
[34] https://www.thecityuk.com/media/owedzyoh/digital-trade-a-commercially-viable-approach.pdf
[35] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1125805/Frontier_Economics_-_data_localisation_report_-_June_2022.pdf

UK leadership in the digital economy

The UK should therefore lead in building secure openness in the digital economy and lay the groundwork for cooperation that balances security and openness, on as broad as basis as is feasible. This project would be a close partner to our "A Services First Trade Agenda" project. The core elements should include:

1

Describe the future

An agreed 15-year international digital economy strategy, elevated to Whole of Government level. This would see shaping the digital economy as a thematic international priority in the same way that the UK shaped approaches to international development in the 2000s or the FTA programme post Brexit. The UK should articulate a **core UK charter of digital economy and data principles** as the basis for all of our international engagement. It would not be limited narrowly to AI or data. Nor would it just be about safety or just about openness. It would be the balanced combination. There is a case for Ministerial speeches on this and a stronger soft power element to describe the kind of future the UK is seeking to build.

2

Co-create new norms and standards with openness:
(a) Data policy: A Plurilateral approach to Data Free Flow With Trust (DFFT).

The DFFT model was proposed by the Japanese in 2019 and has been discussed in the G20, G7, OECD and APEC. DFFT aims to "reconcile two related and compatible policy objectives: (1) promoting free data flows to foster economic growth and (2) protecting individual privacy, national security, and IP through trusted regulations" [36].This is consistent with Building Secure Openness. It is a long-term agenda and the UK should seek to drive forward this approach more actively. A particular focus would be the EU-Japan-UK axis which could form the basis for a "Plurilateral Data Agreement", not least as some note that Japan has moved closer to the European norms recently[37] . Such an agreement is unlikely to ever be fully global and will be based on minimum standards and mutual recognition. It could engage the US under some futures as the US develops a domestic regime on consumer data protection or privacy for example. The UK could lean in as a much more active partner in the DFFT in the same way we did when we joined CPTPP. The DFFT work is being taken forward in an Institutional Arrangement Partnership (IAP) with the OECD but this could benefit from increased UK engagement, investment and support.

[36] https://www.csis.org/analysis/operationalizing-data-free-flow-trust-dfft
[37] https://blogs.sussex.ac.uk/uktpo/2024/07/23/can-the-uk-lead-on-data-flow-governance-insights-from-the-eu-japan-protocol/

(b) Deepen policy engagement with India and other partners on new rules and norms for the digital economy. India stands out a key partner given its scale and depth and breadth of its digital economy. But we are some way from a sense of trust or shared norms on the digital economy and India has expressed scepticism towards the Japanese approach. Rather than seeking a formal bilateral or international agreement first, this argues for a focus on deeper bilateral discussions, building the evidence base around risks that need managing and options around how to build trust with openness. This will again take time. It could be taken forward through more technical regulatory dialogues. The UK should also engage much more pro-actively in wider conversations on data and digital, including for example in ASEAN as a Dialogue Partner. A specific example would be to accede to the Digital Economy Partnership Agreement (New Zealand, Singapore, Chile and South Korea) - the first plurilateral digital economy-only trade agreement. This contains a combination of measures to facilitate trade and enable data flows (acting as a baseline against data nationalisation); as well as developing new norms on consumer data protection and on AI safety. Other parties are looking to join and this could be the basis for a broader conversation about digital economy norm setting. Out to 2040, this could become the basis for developing a broader consensus through DEPA 2.0.

3

Protect and deepen openness where trust already exists.
A third part of the strategy should be around protecting openness in the digital economy where it is credible and feasible to do so and with trusted partners. A priority here is to retain EU data adequacy as the cornerstone of digital openness and connectivity with one of our biggest markets. The UK has this, with the next formal review due in 2031. The recently-proposed EU Cloud and AI Data Act (CADA) may prove to be another core area of focus for pursuing a trusted equivalence approach. While this proposed regulation is not yet law, if adopted, it would set a new 'sovereignty standard' for cloud providers wishing to sell their services to the public sector in EU member states. The details will be negotiated but the current framework has scope (in 'tier three' of four tiers) for an adequacy style decision allowing provision of some services from a third country, where it meets certain conditions. It is not immediately clear that the UK can (or would want to) meet all of these as drafted and experience of other EU Directives suggests that the international elements of this new law will be some of the most debated in the EU.

However, it does argue for the UK to be engaging early and strategically with the EU on this with a clear case based on trust and secure openness and seeking a balanced approach to such adequacy-style frameworks – especially on potential issues around national security and UK domestic powers.

4

Join up the dots with wider trade digitisation efforts

While more focused on easing traditional goods trade, these efforts rely on building trust between different countries and systems around digital identity. Without reliable mechanisms for verifying identity, governments and businesses are more likely to favour localisation, additional compliance checks, and other barriers that reduce the efficiency of digital trade. The UK should champion interoperability between existing trusted digital identity frameworks (i.e. ASEAN's UNBINN framework and the EU Digital Identity Wallet) and pioneer efforts to build the foundations of a globally interoperable digital identity framework akin to existing global customs and shipping protocols.

5

The next frontier of digital economy policy divergence, debate and norm setting

The UK should do a strategic horizon scan of the areas of the future digital economy of greatest intersection with the geo-strategic economy and our value clusters and where a strategy should focus. Initial areas might be: standards on tokenisation; financial data agreements (to develop the principle that financial data does not need to be excluded as a category from cross border data flows as risks can be managed), cyber security and AI safety.

11. A 'services-first' trade agenda

Proposal

The UK should develop and implement a 'services-first' trade strategy – a 15-year strategy that would place primary importance on increasing trade, investment, innovation and competitiveness in the UK economy's service sector strengths. It would start by identifying emerging services growth markets of the future and utilise bilateral dialogues to build shared norms and work towards mutual recognition of rules and regulations, investing in regulatory capacity in partners to do this. In addition, the UK should develop and publish a single UK strategy on international standards targeted at key markets / sectors of importance to the UK.

Detail

The rationale for developing a 'services-first' trade strategy

The United Kingdom's relative economic strength is in services. Services account for most of our economy[38]. More importantly, from a GEO perspective, we trade and invest in services more than others. The UK is the second largest exporter of services globally, accounts for 10% of digital services exports globally and runs a large trade surplus (£203 billion in 2025) – the only country in the G7 to do so. Parts of the services economy will be some of our strategic value clusters and sources of strategic economic advantage.

The UK should develop and implement a 'services-first' trade strategy - a 15 year strategy that would place primary importance on increasing trade, investment, innovation and competitiveness grounded in these strengths of the UK economy. It would start with services and be primarily focused there, separate from the goods trade issues that are the focus of much trade policy.

This strategy would need to be developed in a way consistent with the other elements of Building Secure Openness – working plurilaterally and bilaterally with partners where there is sufficient trust and interest to deepen links. It would be based around an understanding that we are not moving to a common economic model (and so with more reliance on mutual recognition and less on harmonisation); have a clear focus on building trust and confidence over time, be capable of implementation; and it will involve creating new standards and norms to strengthen resilience and security not just the removal of barriers. Such a strategy should comprise:

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[38] In 2025 services represented 81% of the UK's total economic output and 82% of the workforce.

- identifying the emerging services growth markets of the future to 2040 and beyond where there is sufficient trust and shared interests to make cooperation credible.

- adopting a new longer-term approach to building services markets, utilising new non-binding services trade partnerships and dialogues to kick start longer-term work to mutually recognise rules and regulations, investing in regulatory capability to support this.

- developing and publishing a single UK strategy on international standards targeted at key markets / sectors of importance to the UK.

As so many of today's services are delivered digitally, this services-first strategy should be read alongside the Heywood fellowship's parallel project "Shaping the Future Digital Economy".

Identifying the emerging growth markets of the future

A recent WTO/World Bank Report (2023)[39] found that services have emerged as the driving force that is shaping the economic landscape of countries at all levels of development. Services now account for the largest share of global economic activity, generating more than two-thirds of global GDP, employ the most workers and are the source of most new job creation, especially for female and young workers. And while many services are not traded internationally, since 2005, global commercial services exports have increased by almost 170% (and by more than 250% and 300% for developing and least developed countries respectively), with the growth in digitally delivered services experiencing the fastest growth, increasing almost four-fold.

Given the predominantly services nature of the UK economy, coupled with the strong growth in services trade in recent years - growth which can be expected to continue with the growth in AI and digitalisation - the Heywood fellowship believes the UK has a strong interest in identifying and then shaping the high growth services [40] markets of the future. Options might include:

[39] Trade in services for development: fostering sustainable growth and economic diversification, WTO/World Bank, 2023.
[40] e.g. Financial, legal, consultancy, creative industries, and tourism traded across border. Excludes services not traded across border: e.g. local retail, hairdressing etc.

- large services powerhouses (e.g. the US and India): in the US, much regulation takes place at state rather than federal level, where many services barriers can be found. Possible options for greater co-operation on services might include a non-binding MoU on the digital trade/economy with specific states and greater regulatory co-operation between UK financial services regulators and US State insurance [41] regulators in those US states with a large insurance presence (New York, Connecticut, Pennsylvania, Illinois and Texas). India is a key digital partner for the UK given the scale and breath of its digital economy, where deeper regulatory dialogue to build trust through openness may yield long term trading benefits.

- future growth markets: by 2040 countries in South Asia, particularly Singapore, Indonesia, the Philippines and Malaysia; parts of the Middle East, particularly UAE and Saudi Arabia; and some countries in Africa, particularly Nigeria, are all envisaged to exhibit strong services export growth. Growth in digital services is likely to be strongest in India, the Philippines and Malaysia. Singapore, UAE and Saudi Arabia are likely to see strong financial services growth.

In addition, there is scope to go further with existing services markets, for example Japan. With a significant financial centre (Tokyo) and insurance hub, and strength in the financial services and digital space for closer regulatory co-operation, there is potential over time for co-operation to yield bilateral agreements in the financial services and digital space (similar to those the UK struck with Switzerland and Singapore respectively).

Adopt a new longer-term approach to developing services trade, utilising new non-binding services trade partnerships to kick start longer-term work to mutually recognise rules and regulations.

Tackling barriers to greater services trade requires a different, longer-term approach, where countries work together over time to mutually recognise each other's rules and regulations, thereby creating a stronger basis to increase their services trade with one another. Services Trade Partnership Agreements, a looser, non-binding tool could be struck to kick start this longer-term work on mutual recognition, where regulators could mutually commit to work together over time to recognise each other's rules and regulations with a view to facilitating greater services trade.

[41] Insurance being regulated at state level in the US.

The UK-Swiss Berne Financial Services Agreement

The Berne Financial Services Agreement is an outcomes-based mutual recognition agreement between the United Kingdom and Switzerland which facilitates cross-border (mainly wholesale) financial services trade through each country recognising the regulatory and supervisory regimes of the other as achieving equivalent outcomes to their own.

In so doing, it provides new market access by allowing UK insurance companies to offer certain wholesale insurance services in Switzerland without needing Swiss authorisation, while Swiss firms can offer certain investment services to sophisticated clients in the UK without requiring UK authorisation.

Mutual recognition is supported by an enhanced framework for supervisory cooperation between the Swiss Financial Market Supervisory Authority (FINMA), the Financial Conduct Authority (FCA), the Bank of England (BoE) and the Prudential Regulation Authority (PRA), ensuring the respective UK and Swiss domestic regulatory objectives and standards are upheld. It came into force on the 1st January 2026.

The agreement could be a model for other services focused agreements with other countries as it was entirely services focused, mutual recognition based, involved enhanced regulatory co-operation, and sectoral.

Such agreements could also include commitments on regulatory capacity building - which are likely to be of particular value to developing countries and some emerging markets. Enhancing regulatory capacity will support trust between regulators and supervisory authorities, which will be crucial in successfully delivering approaches based on mutual recognition. Trade for development funding, until now focused mostly on goods facilitation, could be increasingly used to support this activity.

Ensuring the UK has a clear focused strategy on standards targeted on key markets / sectors of importance to the UK.

Standardisation brings significant economic benefits. One study (CEBR, 2022)[42] suggests that around 23% of the UK's GDP growth since 2000 can be attributed to standards (i.e. lowering production costs, enabling interoperability across borders / technologies, encouraging innovation and development and reducing barriers to trade.). Internationally, one World Bank Report (World Development Report, 2025)[43] found that nearly 90% of world trade is shaped by non-tariff measures, most linked to standards (up from 15% in the 1990s).

[42] The contribution of Standards to the UK economy, CEBR, 2022.
[43] World Development Report, World Bank, 2025.

Today, standards are a growing and important tool in geopolitical competition. The US, China and EU have increased their presence in international standard setting bodies and increasingly see standards as a way to prosecute competitiveness and retain or develop strategic advantage.

There is a risk of being pulled in many directions. As a mid-sized power, the UK needs to focus. The recently published strategy on digital standards[44] is a good starting point but only covers some of the ground. We argue the UK needs a single, comprehensive strategy on international standard setting, which would articulate a consistent philosophy and approach across the full spectrum of activity as well as limited, core priorities. This strategy should be focused around the geo-strategic economy and global value clusters – the areas where the UK determines a core interest.

[44] Shaping tomorrow: The UK's Digital Standards Strategy 2026 to 2030, UK Government, 2026.

EXCELLENCE

12. A UK strategic value clusters strategy

Proposal

The UK should complement its Industrial Strategy with a **UK "Strategic Value Clusters" Strategy** to identify, cultivate and leverage a portfolio of the areas of UK excellence that are both economically valuable and internationally attractive. The strategy would assess UK clusters through the eyes of international investors, businesses and governments using a 'power of attraction' framework. It would then align political leadership, industrial policy, investment promotion, international partnerships and private sector mobilisation around these clusters, creating a more coordinated, whole-of-UK approach to deliver both prosperity and international influence over the long-term.

Detail

Achieving secure openness in a more contested and competitive global economy requires a relentless focus on the national interest. In a hyper-competitive world, attractiveness cannot be assumed. While the UK's current Industrial Strategy has identified priority sectors and sought to build on areas of economic strength, the UK currently lacks a systematic framework for understanding and managing those capabilities that are of genuine global strategic value.

In our capping paper, we introduced the concept of 'globally strategic value clusters' to describe these areas of the economy. These are not simply sectors but rather ecosystems of businesses, institutions, talent, infrastructure, capital, innovation that together create capabilities of strategic importance to the UK. Identifying these clusters would require further detailed analysis. As described in the capping paper, a natural starting point would be the eight 'growth driving' sectors identified in the Industrial Strategy, as these have already been assessed as having significant economic value and therefore satisfy the first part of our criteria. Our analysis suggests one notable addition - higher education - as it scores strongly across several measures of international attractiveness and relative competitive strength.

For illustrative purposes, potential strategic value clusters might include the following:

Potential strategic value clusters

INDUSTRIAL STRATEGY SECTOR	POTENTIAL STRATEGIC VALUE CLUSTER	POTENTIAL PRODUCT
Clean energy	Nuclear fission	Small modular reactors
Advanced manufacturing	Aerospace	Jet engines
Financial Services	Insurance & Reinsurance	Shipping insurance products
Life sciences	Vaccines	Malaria vaccine
Etc...	Etc...	Etc...

While the UK possesses many such globally relevant strengths, it lacks a coherent strategy for systematically cultivating, scaling and leveraging them. Currently, once important opportunities have been identified, responsibility becomes fragmented across departments, agencies, places and institutions. Investment, exports, innovation, international partnerships and diplomacy are often pursued through separate systems despite all contributing to the same underlying assets. The result is an approach that is too fragmented and too transactional. The UK already possesses a number of strong institutions, including the Office for Investment, which has demonstrated the benefits of a coordinated, account-managed approach to securing major inward investments. However, these efforts are typically focused on a single objective or transaction.

Many of the UK's competitors are adopting increasingly integrated approaches. Countries such as France, Singapore and several Gulf states routinely align political leadership, investment promotion, industrial policy, international partnerships and private sector mobilisation behind strategically important opportunities. Major investments and partnerships are often pursued with direct Head-of-Government engagement and a clear national proposition. The UK needs an equivalent capability. We propose a new UK approach to meet this challenge.

A UK Strategic Value Clusters Strategy

The Heywood Fellowship proposes a UK strategic value clusters strategy, led by No. 10. The strategy would identify a limited portfolio of clusters where the UK possesses, or could develop, globally differentiated strengths and coordinate government efforts around strengthening and leveraging those clusters internationally. The objective would be:

'To increase the UK's prosperity, resilience and international influence by building and mobilising a focused portfolio of globally competitive strategic value clusters'.

This strategy would sit above and align existing policies including the Industrial Strategy, trade policy, investment promotion, innovation policy and economic diplomacy. It would be about more than growth; it would be also about influence.

We propose that the strategy should have the following features:

1 A power of attraction framework to identify globally strategic value clusters

The table below provides an illustrative framework for assessing attractiveness across a range of categories. Crucially, the framework assesses UK value clusters **through the eyes of international investors, businesses and governments.** The focus is not on how the UK values its strengths but on how they are perceived by others. Value clusters need to be of significant economic value to the UK, have and be able to maintain a strong competitive global position and be seen as credible and reliable. They must also be scalable, demonstrate 'stickiness' in terms of long-term international partnerships and resilience to shocks and disruptions. This is not an exercise in discovering new frontier industries; it is about identifying what we already have now that matters to others. Finally, we would propose running a geo-strategic lens across the portfolio of clusters to ensure that there are enough projects from the geo-strategic areas of the UK economy (as defined in our capping paper) and that we have sufficient sovereign capability in these. It would not be necessary for the entire portfolio to be geo-strategic as we would want there to be some balance across economic sectors, but, given increasing geo-strategic competition, having some focus on this subset will be important for building secure openness.

CATEGORY	DEFINITION	EXAMPLE MEASUREMENT/METRICS
ECONOMIC VALUE	The value cluster is materially important to the UK economy today and in the future	Jobs created; GDP contribution; Gross Value Added; tax revenue generated
QUALITY &LEADING POSITION	The value cluster has, and can credibly retain, a leadingposition in its field relative to other countries,demonstrating strong performance or value for moneyversus peers	Global market share (%); globalranking; number of world-leading firms; presence in key markets; value formoney vs competitors

REPUTATION& TRUST	The value cluster is widely seen as credible and reliable, backed by strong reputation, stakeholder confidence and proven track record	Industry league tables; awards and certifications
SCALABILITY	The value cluster can operate at scale, with the ability to expand capacity to meet relevant users'/buyers'demand	Infrastructure availability; skills supply; access to growth capital
LONG-TERM	The value cluster entails multi-year partnerships (to 2040) with longer-term demand associated	Demand forecast (to 2040); timeline for project delivery; pipeline of multi-year projects; R&D investment
RESILIENCE	The value cluster is resilient and demonstrates a manageable risk of disruption or failure	Supply chain security; financial resilience; operational resilience (recovery time and continuity e.g. during shocks)

2 Identified senior leadership in government

A central lesson from successful sectors such as life sciences is that outcomes improve significantly when there is clear accountability for delivery. Every major strategic value cluster and strategic project should therefore have a named government leader (at senior official level) responsible for coordinating activity across government and industry. The model should draw on the approach pioneered in life sciences, where leaders such as Sir Patrick Vallance have successfully brought together government, regulators, researchers and investors around clearly defined strategic objectives and acted as the central focus for identifying and unblocking issues. Or on financial services where this role is typically played by a senior official in HM Treasury. Most importantly, they would be responsible for ensuring that strategically important opportunities continue to move through the system rather than becoming stuck between organisational boundaries.

3 Developing package propositions

Increasingly, major global investments and partnerships are won through comprehensive national propositions rather than isolated incentives or broader horizontal policies alone. For each strategic value cluster, the UK should be capable of assembling a compelling package proposition incorporating:

- Skills and workforce support
- Research capability
- Infrastructure
- Land and planning solutions
- Regulatory flexibility
- Financial support
- Government sponsorship

This would enable the UK to present a coherent and competitive offer to global investors, firms and strategic partners. Winning globally significant opportunities increasingly depends on the ability to mobilise all the relevant elements of the national ecosystem behind a single proposition.

4 Managing a portfolio of strategic relationships

One of the most important advantages of the matrix approach is that it allows government to think beyond individual countries and individual projects. Instead, the UK should manage an overall portfolio of strategic relationships. This allows for a more sophisticated approach to geopolitics. The objective is not simply to maximise engagement, investment or trade. It is to maintain a balanced portfolio of relationships that supports the UK's long-term prosperity, resilience and security, such as through diversification of investment sources, building supply-chain resilience and strategically managing national security concerns. It would help government to determine which relationships to deepen, which relationships should diversify and which dependencies should be reduced or avoided altogether.

5 No.10 led

This is a fundamental design feature of the proposal. The UK's most important strategic value clusters depend upon policy levers spread across multiple departments, geographies and institutions. No single department can align these effectively. Only No.10 can provide the necessary authority, visibility and coordination. Prime Ministerial leadership is also increasingly important because many major opportunities are ultimately secured through leader-to-leader relationships. The Prime Minister plays a unique role in unlocking major investments, securing international partnerships, resolving domestic barriers and signalling national commitment. The Prime Minister should therefore act as the steward of Britain's strategic value clusters portfolio.

6 A whole-of-UK effort

While strategic direction should come from the centre, delivery can only be rooted in the nations and regions of the UK, as well as across cities, regions, universities and industrial clusters. The strategy should therefore combine national strategic direction with locally led cluster development. This allows the UK to operate at global scale whilst drawing upon the distinctive strengths of its regions and nations. Success will require government, business, investors, universities, metro mayors and devolved administrations to work as part of a single national effort.