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BUILDING SECURE OPENNESS

Navigating the Changing Global Economic Order

Capping Paper: A New UK Economic Statecraft for 2040

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Heywood Fellow

About the Fellowship

The Heywood Fellowship is a visiting fellowship created in memory of Jeremy, Lord Heywood, Cabinet Secretary from 2012 to 2018. The purpose is to give a UK Senior Civil Servant the opportunity to explore issues relating to public service and policy outside of the immediate responsibilities of government duties. The Heywood Foundation and the Blavatnik School, University of Oxford, established the Heywood Visiting Fellowship with support from the Cabinet Office. The Fellow is associated with Hertford College, Lord Heywood's former college.

The 2025-26 Heywood Fellowship set out to consider a refreshed UK strategy for navigating the changing Global Economic Order at this pivotal moment in time. It sought to explore the UK's long-term needs and objectives, identify current and future challenges, and propose innovative policy approaches which would enable the UK to navigate and flourish through this pivotal moment and into a new era.

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The Heywood Fellowship Team

Jenny Bates is the 2025-26 Heywood Fellow. She is supported by Martin Fitches, Catherine Taylor, Michael Leger and Mark Paskins.

Jenny Bates – Heywood Fellow. Jenny was Director General in the FCDO from 2020 to 2025, undertaking two roles focused on China and the Indo Pacific and then more recently on Economics, Climate and Global Issues. Jenny's career has spanned more than two decades of economic policymaking in the British government (in FCDO, BEIS and HM Treasury), working across the intersection of international and domestic economic issues.

Martin Fitches – Visiting Practitioner. Martin has an extensive international and trade background, most recently as Co-Director for US trade policy at the Department for Business and Trade leading the UK's response to US tariffs. Martin has held a range of senior trade policy roles since Brexit, including as Deputy Director of Multilateral Trade Policy and the WTO.

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Mark Paskins –Visiting Practitioner. Senior Treasury official who, prior to joining the Heywood fellowship, was the UK's Alternate Director at the European Bank for Reconstruction and Development. He has spent much of his career working on international development, corporate taxation and financial services issues in EU and international fora, as well as working extensively with Multilateral Development Banks.

SUMMARY

This year's Heywood Fellowship set out to assess the changing Global Economic Order (GEO) and how the UK can best navigate this context, with a time horizon to 2040. We have used a range of techniques including scenarios, historical case studies, public deliberation, data analysis, international comparisons and structured strategy development. We published our first papers in January 2026 and have engaged widely with stakeholders in a spirit of open policymaking. This paper sets out our conclusions and proposed way forward. In sum:

- The UK's approach to the changing Global Economic Order is no longer viable. Our inherited approach is not robust enough to navigate the era of geo-strategic competition, the range of scenarios we may face, or changes in the policies and behaviour of partners around the world. And it does not command sustained public consensus.

- This paper proposes a new strategic approach called 'Building Secure Openness', grounded in a hard-headed assessment of the UK's role in a changing world. It sets out three things: (i) a new strategic framework, (ii) a set of 12 innovative policies that could be taken forward to bring it to life, where we think the biggest changes in approach are needed, and (iii) three shifts in national capability necessary for the UK to implement it consistently. It also sets out the implications of this approach for our relations with the European Union, the US and China.

- Building Secure Openness starts with a goal of sustainable prosperity and rising living standards in the UK. This can be thought of as the test of success. The strategy calls for the UK to invest in agency, resilience and competitiveness. Specifically:

    1. **Building: increasing UK agency in the world.** The UK needs to invest much more in how we influence and shape outcomes, both to attract value – partnerships and investment - to the UK and to reduce risks. We need to engage with shifting relative power and while we have a bigger economy than ever in absolute terms and many assets, we need to think and act like the mid-size power we are today. We also need to deploy our agency to build secure openness with others: the UK needs to be an agent of change.

    2. **Secure: increasing UK resilience.** The UK needs to work harder to reduce the probability of shocks and their impact. With greater use of power in the global economy, our approach to resilience needs to include a sharper ability to use economic leverage against coercion, principally as deterrence.

3 **Openness: changing the way we engage with partners.** While autarky is not a viable or desirable strategy for the UK, we need to shift our approach to openness. That is, with whom and on what terms the UK is open. This may involve increasing some barriers, either in a shift to plurilateral partnerships or in focusing directly on where UK sovereignty matters. Openness may also come through collaborations rather than markets. The strategy seeks to deepen openness but on the right terms and in different formations.

- This paper is focused on implementation – the how as well as the what. We therefore offer a way of thinking about which parts of the economy this shift in approach most needs to focus on. Our concept of the **geo-strategic economy** tries to capture not just where there is openness but also where partners have chosen to be 'rivalrous' (with a focus on relative gains rather than win-win) and where there is a case for intervention based around either material risk to the economy or material outsize advantage. This sort of conceptualisation is difficult because it is about defining new policy boundaries. It also involves recognising that issues around sovereignty, for example, have been implicitly downplayed in recent UK policymaking. But it is important in practical policymaking as it helps to define scope.

- To take forward the strategy, the UK needs to change policies in some areas in particular: we propose an illustrative set of **innovative policy actions** to bring the framework to life. These are discussed in more detail in the paper and include:

⟶ Undertaking a comprehensive assessment of risks and embedding resilience in government decision making; in parallel, a shift in business decision-making through the adoption of a new corporate national resilience principle.

⟶ Identification of potential UK economic leverage and sharper powers to deploy it against coercion; in parallel, deepening international engagement to manage and limit the use of coercive tools, including new norms.

⟶ Deepening UK capabilities in the geo-strategic parts of the economy, including through a new UK investment fund modelled on the National Security Strategic Investment Fund (NSSIF).

⟶ Building a portfolio of international industrial collaborations to diversify and strengthen openness; in parallel, reforming the global trading system to facilitate this and better manage legitimate differences between countries.

⟶ Growing secure markets in areas of strength for the UK through shaping the digital economy to 2040 and a services-first trade agenda, focusing on where those markets need more trust and safety as well as openness.

→ Deepening and retaining value in the UK in a more competitive global environment by sharpening our engagement around core strategic value clusters and a new government-business council to shape and deploy them.

- Finally, the approach calls for investment in three UK national capabilities necessary for the UK to implement the strategy. One around how the UK can deploy 'middle power' diplomacy and statecraft; a second on driving greater strategic alignment between business and government; and a third on integrating economics and security across government. Some of this is not new, but it is all necessary for the UK to be able to implement the strategic framework.

- The strategic framework can be applied to relationships with the three large economic powers: the United States, the European Union, and China. Taken as a whole, it is a description of pragmatism based on UK interests that may feel, in practice, like ongoing adjustment and constant judgement between partnerships.

- There are already some emerging shifts in UK policymaking along these lines. To be successful in this new era, the UK needs to see this as a fundamental strategic pivot, adopt it as such and implement new policies and supporting capabilities. Our work on the history of UK statecraft shows the UK has done this before; we have many of the tools and capabilities, we just need to refresh and deploy them for today's challenges.

Framing

This paper is the second – and final - in this year's Fellowship. It builds on the Anchor Paper and Scenarios that we published in January. We argued then that we are in a pivotal moment for the Global Economic Order and a profound period of transition; that uncertainty is high so there are many scenarios the UK could face; and that we will not return to the post-1990 era of globalisation. We described the UK's inherited policy stance as Activist Globaliser[1] and assessed that this was no longer a viable strategy. We set out to devise a new approach.

This paper does that. It has been informed by intensive discussion with a range of stakeholders across the UK and globally. We have heard consistently how useful the scenarios have been to shape thinking. Many have pointed out that some features of these scenarios are here today – tomorrow is already with us. And that the pace of change seems to be accelerating in some of these directions: global events since January have had features of G vs G or GX [2]. Others have pointed out that we may move between scenarios over time. It may feel like we are in G0, followed by G2 or G vs G. Those insights reinforce the need for a strategy that is robust to uncertainty and to many scenarios.

No one has fundamentally challenged our description of the UK's core legacy policy settings as Activist Globaliser. It resonates – even if it was never written down in a core document. While there has been more debate about how much the UK 'does strategy', we have seen – including through our engagement with the UK public - a strong appetite for a change of course and a demand for a positive sense of what the UK can achieve and how, even against challenging headwinds. The UK has begun to shift its approach over the last few years and is arguably already in a period of transition away from Activist Globaliser. We have seen and drawn from emerging policy innovation in government as the UK responds to the changing context. But the UK response remains nascent, sometimes contested and not at scale. This suggests some form of new, consistent direction and action would bring value.

This paper therefore takes as given the case for change we set out in January. It is focused firmly on the 'so what'. It does three things:

First,
it sets out a new **Strategic Framework for the UK** to 2040. A new 'true north' around which international economic policy can be organised for the next 15 years. We call this Building Secure Openness. The paper describes how this is different to our current approach and what needs to shift. It does this intentionally by starting with what the UK is seeking to achieve, not with a specific bilateral relationship. It puts the what before the who. And it identifies the parts of the economy where a policy shift most needs to take place.

[1] We defined Activist Globaliser as internationalist with a win-win mentality, economic efficiency focused, market-led, technocratic and western allied.
[2] Our scenarios paper published in January set out fours scenarios for the UK called G0, G vs G, G2 and GX.

Second,
it sets out **12 Specific Policies** – our proposed 'Pioneer Projects' to use the previous Heywood Fellow Lucy Smith's National Strategy Playbook framing[3]. This is not a comprehensive policy agenda for the whole of government, as we did not have capacity to develop that as the Heywood Fellowship. But it focuses on where we think the biggest policy changes are needed and seeks to be as specific as possible about what that would look like. It draws from our experience as policymakers, from UK history, from other countries and, to some extent, from examples where the UK is already innovating. The policies are intentionally 'cross domain' (covering energy, trade, finance etc) and designed to manage uncertainty. Some of the proposed actions are best thought of as 'insurance policies' to manage scenarios we may face. It is the initial agenda for action for any government that wished to implement the strategy.

Third,
it sets out three key **enablers** that we think the UK will need to develop to implement this strategy. These are national capabilities that we need to strengthen: one around middle power diplomacy and statecraft; one on driving greater strategic alignment between business and government; and one on integrating economics and security across government. Some of this is not new, but it is all necessary.

Together, this presents a package of 'what' and 'how' that we consider to be a refreshed UK Economic Statecraft for 2040.

Finally, we describe what this strategy would mean for the relationships with the three biggest economic powers: The **European Union,** the **US** and **China.**

The paper is organised as follows:

1. **A New Strategic Framework to 2040**
   - **a.** Core goal: sustainable prosperity and rising living standards
   - **b.** Building secure openness – what this means and how this activates the core pillars of agency, resilience and competitiveness.
   - **c.** New policy tramlines to deliver this
     - i. UK interest-led
     - ii. Resilient markets and collaborations
     - iii. Engaging power relations
     - iv. Managing spillovers
     - v. Interest based plurilateralism
   - **d.** Prioritising action across the economy
     - i. The geo-strategic economy – a new subset of the economy
     - ii. Globally strategic value clusters – how to position strengths in a competitive and contested age

[3] https://www.bsg.ox.ac.uk/research/publications/heywood-fellowship-national-strategy-playbook

2. Policy Implications - 12 policy actions the UK could take to implement the framework

3. Developing our Statecraft - three national capabilities we need to develop
   a. The UK as a pivotal power – a middle power mindset and playbook
   b. Bridging the gap between boardroom and government
   c. Combining economics and security across government

4. Implications for UK relations with EU, US and China

5. Glossary of Terms

This capping paper is accompanied by an **Annex** that sets out the 12 policies in detail. We are also publishing alongside a number of supporting papers. Two of these deepen and inform the strategy, looking at the issue from the perspective of the British public and from our own history:

1 **How the British public wants us to navigate a more uncertain global economy.** This paper presents evidence on public views on the choices the UK faces. We chose to do a deliberative exercise – where members of the public debate topics after being presented with consistent evidence – given the complexity of the issues and that this sort of technique is not widely used in policymaking, especially in foreign policy. The public did not disappoint: the exercise challenged some of our assumptions, while giving pointers for where a new consensus could lie.

2 **British International Economic Statecraft from the 1960s-1980s: Revisiting key strategic decisions in finance, energy and technology amidst geopolitical disorder.** This paper draws some lessons from history for UK 'international economic statecraft', defined broadly as the sum of all actions a state takes to influence or establish rules, relationships or economic events. By considering four case studies from the 1960s-80s, it demonstrates that the UK – under both Labour and Conservative governments – has used such statecraft to navigate challenging geopolitics and improve the UK's domestic economy, including in the domains of technology and finance. History is not a prescription but it does contain useful lessons that we draw on to inform the strategy.

Two final papers fill out in more detail the enablers on government engagement with business and on the middle power mindset and playbook, and are summarised in section 3.

[3] https://www.bsg.ox.ac.uk/research/publications/heywood-fellowship-national-strategy-playbook

THE NEW STRATEGIC FRAMEWORK: BUILDING SECURE OPENNESS

The starting point for any strategy is a core **goal.** This can be thought of as the ultimate test of success. This strategy takes as its goal **'sustainable prosperity and rising living standards in the UK'**, which captures three core elements:

- 'sustainable' is intended to capture the concept of rising welfare that is consistent with a livable planet, as well as sustainable in the face of shocks
- 'prosperity' to include wider concepts than just income
- 'rising living standards' to recognise that a healthy democracy is best sustained through voters' experience of the economy.

This focuses the strategy on the lived experience of citizens across the UK over the longer term. It moves away from an approach focused on current growth and places that as a means to the ultimate ends.

The core strategy question is **how** best to achieve this, especially in a changing context. Using the scenarios we published in January to consider potential futures, the proposed strategic framework is grounded in 14 **strategic observations and implications** set out in **Box 1.** Taken together, these are the 'so what' assessments that inform the strategy. While some of the global context is shared with other countries, the specific implications are unique to us.

Box 1: Core insights to inform strategy

Observation	Implication for strategy
We are in an era of radical uncertainty and have limited influence.	Strategy must be robust to many scenarios, including those we seek to avoid. There is option value to experimentation and agility. We need to both generate influence and manage risks we cannot eliminate.
The **UK** is a mid-sized market economy among many such middle powers who are not organised and between three much larger blocs, each pursuing more state-led capitalism.	Ground strategy in understanding that we are a mid-sized power and this shapes our options. Build interest-based and diverse partnerships, including identifying where these interests overlap with larger powers.

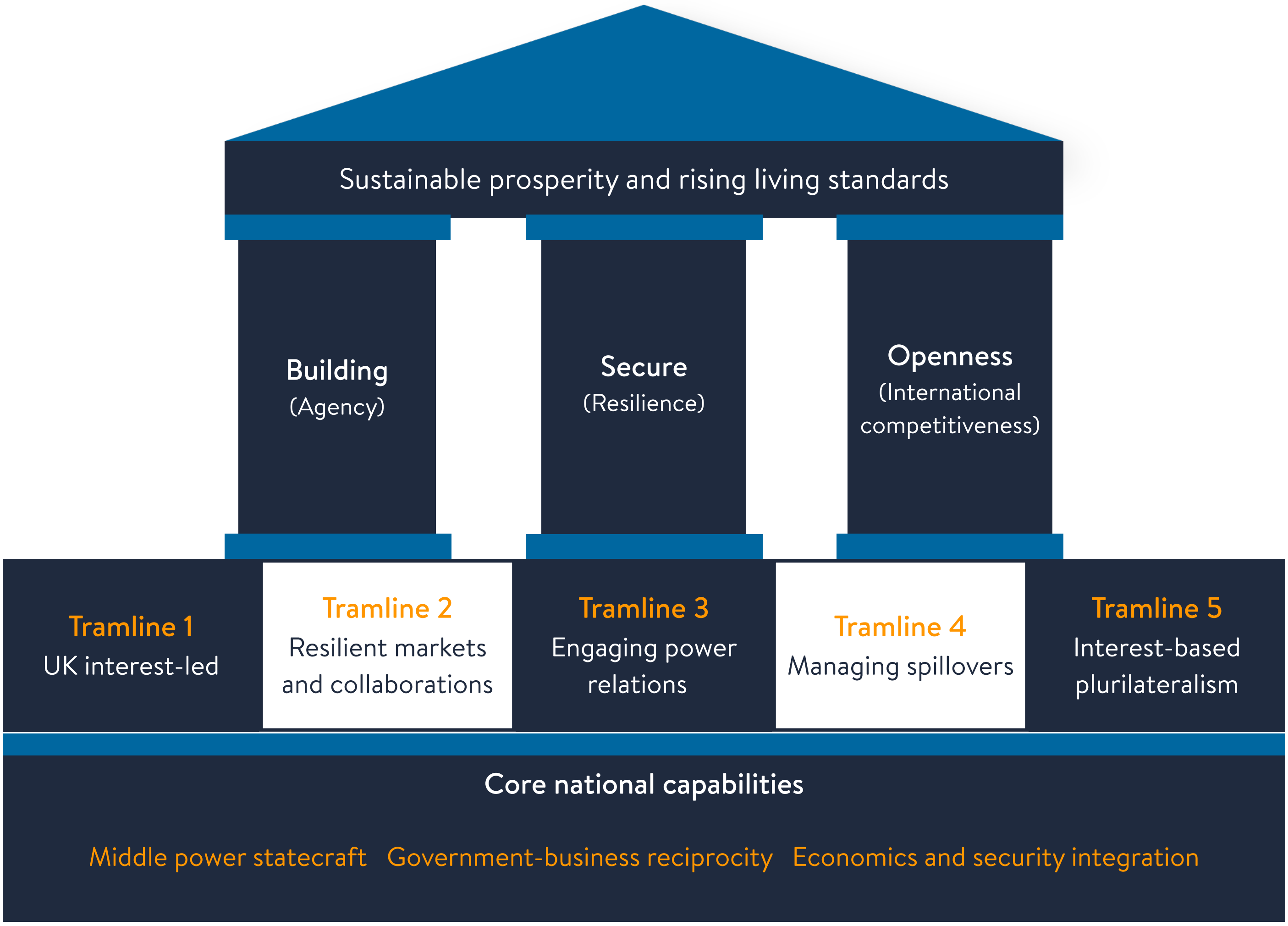
Observation	Implication for strategy
The **UK** economy has experienced sustained low growth and stagnant living standards - and has an ageing population and high public debt.	Be more active in securing value to the UK from international links (trade, investment etc) and focus on affordability, including partnering to share costs where feasible.
The **UK** has a unique comparative advantage globally in services (including financial services) and innovation.	Shape new markets to be sustainable for UK services exports and nurture our core economic ecosystems.
The **UK** is an outlier in the degree of openness to trade, investment and ownership of our economy, including in sectors we rely on for growth. Much global business present in the UK has weak affinity to UK national objectives.	Address vulnerabilities and increase national control and/or choice (sovereignty) where these are most acute. Deepen strategic alignment between the private sector and UK national objectives.
Technology has become a vector of strategic competition and states are taking a more active role in its development and adoption.	Protect and grow our technology assets, focus on ownership and deployment - not just generation - of intellectual property and deploy leverage from technology when necessary.
EU action (bilaterally and globally) is 'first among equals' in terms of economic impact on the UK and the relationship is currently contested.	Partner with Europe on building secure openness and do so with a long-term time horizon.
The UK has significant dependence on a less reliable **US** partner.	Increase agency where core interests diverge and reduce over-dependence.

Observation	Implication for strategy
China's persistent state capitalist model is creating spillovers that challenge some sectors, partners and the wider economic system.	We have a shared interest with others in managing spillovers more effectively and should seek approaches that strengthen this.
Global rules and norms are increasingly unavailable.	Invest in both plurilateralism and soft norm setting and apply realism about what rules will sustain consensus – and with which groups.
Greater use of **power** politics and economic coercion means rising risks for an open UK economy.	Build resilience, including through diversification. Build capacity for credible execution of economic leverage as a deterrence policy, including collectively.
Climate change will impact resilience and the necessary **energy and climate transition** entails significant economic transformation and policy reform.	Place greater emphasis on managing spillovers between economies on different (economic) paths and on collaborative interventions that drive energy security and climate resilience.
The UK has a distant relationship between government and **business** in an era of rising economic statecraft.	Bring business and government closer together to tackle strategic challenges and change more than other countries on this dimension.
The British **public** want change, with more emphasis on economic security and national interest and more clarity on direction.	There is space – expectation even – to make bold choices, as long as there is clear explanation and honesty on trade-offs.

Note: Light blue are about the GEO/the context, dark blue are about the UK specifically

Distilling these into a strategy is an art more than a science. But the three core pillars or building blocks of any UK strategy come through these insights: seek to increase (i) impact or agency, (ii) resilience and (iii) international competitiveness. We have come back to these three in different ways time and again throughout the Fellowship. They have permeated all of our discussions. All of the insights above drive to one or more of these pillars. We therefore propose a **core strategic orientation for the UK** that draws on the three core pillars: agency, resilience, and international competitiveness. We call this Building Secure Openness.

Figure 1: Building Secure Openness



The three core pillars of this strategy are:

1

Building: increasing UK agency in the world

This element embeds agency in two ways. First, our diagnosis is that 'secure openness' does not currently exist – either for the UK or globally. We have to deploy UK agency to make this happen. Change and reform is required, both at home and in the wider international economic system. The UK becomes partially revisionist in this framing – not a status quo power. And that revisionism is vested in our own assessment of UK interests and risks. Second, the UK will need to build its own leverage and influence to achieve its core goal; we need to invest in our own agency to shape outcomes and not simply assume influence. This could be about the partnerships that we create to help secure new markets, or the new coalitions we may need to manage pressure and coercion. Perhaps most importantly, we will have to operate differently to create that agency. We need to understand where the UK sits in hard power relations terms, and pay attention to how we can generate influence and deploy it when needed. This will require time and investment from the UK.

2

Secure: increasing UK resilience

This considers resilience as being resilient to both exogenous shocks (like pandemics and financial crises) **and** to power relations operating in a more contested and insecure world. The aim is to both reduce the probability of negative shocks or pressure (including through deterrence against the use of economic power) and reduce their impact when we cannot fully prevent them, recognising that we have limited influence on others. And it is grounded in being more open-minded in how we achieve this, rather than taking a specific economic partnership as the sole basis for that resilience.

3

Openness: changing the way we engage with partners

This embeds and grounds the core concept of **competitiveness** for an open economy like the UK in the fact that we cannot achieve growth and rising living standards alone. Autarky is not a viable or desirable strategy for the UK and this element anchors our approach in the insights that we will continue to rely on access to knowledge and innovation, and new markets and new sources of capital. However, the question in a changing GEO is openness **with whom** and **on what terms** – and especially focusing more directly on where UK sovereignty matters. It does not place 'globalisation' or a 'global rules based order' as the objective, recognising that we are in a world of managing both different economic models and greater power contestation. Openness may come through more managed trade and/or through deliberate collaborations, rather than through markets alone. It is more pragmatic.

This core orientation – Building Secure Openness - is consistent with our public deliberation exercise and wider assessment of public opinion (see Box 2). Those demonstrate that the UK public is, today, not aligned to the Activist Globaliser strategy. Amidst rising international volatility and financial strain, the UK public is increasingly prioritising national self-interest, security and resilience over global openness and efficiency. In the deliberations, there was a clear sense of a desire for a more active and directional approach for the UK (ie for building); for a greater emphasis on security than efficiency (ie for secure); and a sense that the UK should still be seeking to partner and engage widely externally, while ensuring that more value is retained in the UK (ie open but UK-led). There could therefore be a more sustainable public consensus on this strategy than on framing the strategic orientation around either a rules-based global order, or a narrowly nationalist approach.

Box 2: British public views

The Heywood Fellowship ran a bespoke deliberative exercise with a representative sample of the British public to consider the themes of the changing Global Economic Order and the UK's approach. In parallel, we have reviewed opinion polling data relevant to these themes both today and over the past decade. For full details of methodology and results see our accompanying paper: **"How the British public wants us to navigate a more uncertain global economy".**

Key findings:

1. **The British public is interested in the UK's approach to the Global Economic Order** and wants frank and open communication with government.

2. **National self-interest is the dominant lens through which the public views UK international economic activity,** prioritising British economic interests over global connectedness and openness. The public: (i) favours reducing dependence on foreign ownership, investment and imports, especially in relation to the UK's critical national infrastructure; (ii) is more comfortable with openness in relation to non-essential goods and services but still expects clear benefits to the UK; (iii) prefers pragmatic partnerships over reliance on major blocs; (iv) is concerned about climate change but prioritises security and economic concerns over climate action; wants international development aid to deliver benefits for the UK; and is becoming more sceptical of the economic value of migration.

3 **Britons feel less safe in the world and want a more assertive approach to economic security.** While the public supports greater resilience and is willing to accept some higher prices for goods and services that are safer and more secure, there is no consensus on broader trade-offs such as higher taxes or reduced public spending.

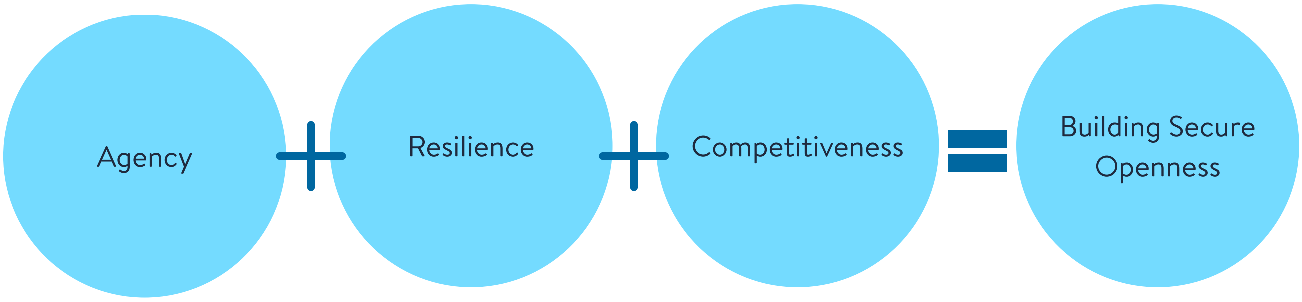
4 **Views on the UK's international partners are changing and the public wants greater diversification.** Trust in the US has fallen, perceptions of China have softened and support for the EU has increased, although this support remains fragile, is driven more by concern about US behaviour than attraction to the EU itself, and evaporates once trade-offs are raised.

5 **The public would favour a measured and pragmatic response to any economic coercion, ideally coordinated with allies.** The public believes the UK would need to respond to economic coercion but recognises our limited ability to act alone and wants pragmatic responses that minimise costs to British consumers.

6 **Public opinion is increasingly divided, particularly by age and political affiliation.** Differences in how people access news and information are likely contributing to this divergence.

Importantly, the **strategy must seek to achieve all three pillars** - agency, competitiveness and resilience – to be robust to the range of scenarios we may face. Security and resilience will be more important in a G vs G world. Agency or impact will matter more in a G2 world. Competitiveness and openness will be challenged fundamentally in a GX world. A strategy that pays attention to only one will not be sufficiently robust. Over the 14 year period to 2040, each has equal weight as a part of the strategy. Given our starting point today, more initial emphasis needs to be placed on agency and resilience.

Figure 2: Building secure openness requires investment in all three pillars



To implement this new orientation, the UK needs a new set of policy tramlines – each of which shifts an element of what we had been doing before. These are set out below.

Box 3: New Tramlines: What's different?

Activist Globaliser		Building Secure Openness
Globalist	→	UK interest-led
Efficiency and market price	→	Resilient markets and collaborations
Harmonising	→	Managing spillovers
Technocratic	→	Engaging power relations
US bloc	→	Interest-based plurilateralism

New Tramline 1: UK interest-led

A UK interest- and outcome-led approach starts from UK interests and (economic and security) outcomes. It recognises that global economic links come with both greater risks and greater opportunity. They are a means to an end and not an end in themselves. This does not preclude deepening cooperation with some partners or in some domains, but it requires a much more hard-headed UK assessment of our interests and the relative merits of specific collaborations.

This tramline focuses attention on actively securing value to the UK from international investment, innovation and trade. While there are some global public goods (like general science), this framing is more interested in private and club goods where returns are not shared equally or by all and by the behavior of other actors interested in capturing returns. In a more uncertain and sometimes contested world, the UK needs to be clear that transactions or partnerships are generating return to the UK and to establish policy mechanisms and conditionality that achieves this, including with the private sector. It would lead to more activist government approaches to secure that value to the UK.

Finally this tramline directs attention to the ongoing need for the UK to shape global markets to maximise our potential benefits from international trade, investment and innovation. Combined with other elements of our strategy, it would be seeking to do this plurilaterally and pragmatically and it would recognise that some domains – the technology one in particular – will need more security as well as more openness. So shaping those markets is not just about removing barriers, it may also be about creating new regulations and new norms to manage risks.

This tramline therefore shifts the emphasis away from globalism. It explicitly rejects the presumption either of globalisation as being an objective in itself (a goal for at least some) or the best way to achieve our goals (which has been implicit in much UK policymaking). And it removes a presumption that generating an overall economic return is enough – it matters **who** gets that return and **where** it lies. Finally, new opportunities for exchange are no longer achieved through the pursuit of open global markets but a more pragmatic plurilateralism.

New Tramline 2: Resilient markets and collaborations

This tramline focuses policy attention on reducing over-reliance on a single supplier, investor or market. It explicitly calls for taking into account the geopolitical context and risks – understanding the interests and behaviour of others and that they may not be operating on market principles but may be operating strategic national capitalism or outright economic coercion. There is therefore value to diversification and choice, even if it adds to the price today. That optionality will help us manage better the range of scenarios we may face and will not always be able to control. The strategy should seek to increase it.

This tramline also sees markets as one important way to diversify and create resilience. But it recognises that more managed international collaborations may be another equally viable option in this shifting context. These are likely to be public-private in some form and so the role of the state is more active as a strategic investor and consumer, as well as regulator. Drawing on an understanding that the UK cannot afford a solely UK solution, it focuses attention on pooling and multi-country industrial and economic collaborations that may help get to scale and viable alternative options. Here it draws on some historical cases studies where the UK has done exactly that.

This tramline therefore shifts the emphasis away from an approach based on maximising efficiency, usually captured into policy shorthand by focusing on options that reduce today's (consumer) price. It recognises that the assumptions underpinning such a shorthand do not hold, at least not in many of the scenarios we now face. For example, we care about the location and value of production as well as consumption. Market failures exist and are material, not least as some large actors are focusing on capturing economic rents. All of these factors - not captured in prices as a short hand - are growing. Perhaps alive to this, while concerned about the cost of living, citizens are also expressing a desire for greater resilience and more ability to reduce dependencies and increase optionality.

New Tramline 3: Engaging power relations

This tramline draws attention to the return and growing use of power in many of the scenarios we discuss: 'might is right' may happen more than 'right is right'. It also explicitly recognises that the UK, while a bigger economy than ever and with a unique set of assets, has less relative power than in previous eras and needs to focus more on how it can exert leverage and influence. We need to work on the basis that leverage has to be generated and carefully deployed.

This tramline's more active focus on power relations takes two sides. On the one hand, it focuses attention on the need for the UK to be able to credibly deploy economic deterrence. This is one of the more difficult areas and needs to be approached with caution. The UK is not likely to seek to pro-actively weaponise economic linkages (without provocation) given our high degree of openness. However, given that openness creates vulnerabilities, that weaponisation is rising (and real for the UK in some of our scenarios) and the current conditions of deep integration create many opportunities for it to be deployed as leverage, part of the strategy is to be able to credibly threaten the imposition of cost. Others (including partners) have spent more time on this. The UK has deep expertise, experience and capability in deterrence in a purely security and military realm and has an impressive diplomatic reach and capability. It has used sanctions recently but principally for foreign policy objectives. Any specific decisions on response to a threat would be context specific and should be proportionate - not responding at all is always one of the options. This tramline simply calls for attention to be paid to developing credible economic levers – principally as part of our deterrence toolkit - and to do so before reaching a moment of crisis.

The other side of power and leverage is that of attraction. This tramline picks up the UK interest and outcome-led approach and adds a lens of power and influence. The UK needs to develop its assets in a globally competitive and geo-strategic context, not just that of win-win cooperation. That means a greater understanding of what others want and need from us. What do they value about the UK? What creates our soft power? Where are we facing the most competition from alternatives to the UK? International economic strategy should be relentlessly focused on maintaining the relative attractiveness of the UK as a partner bearing in mind the growing competition and that priorities of partners are shifting in this context. We need to be organising more sharply and with more intent to drive maximum benefit from international engagement.

This tramline therefore moves away from a purely technocratic approach: that international economic policy is about finding the most effective way to achieve a given outcome and convincing others of its merits based on evidence and analysis. This is not to dismiss the value of evidence and policy design expertise. There will still be times and places where this is the best way to persuade; it should remain part of policy implementation and shape outcomes. But it is not the dominant guiding approach.

New Tramline 4: Managing spillovers

This tramline takes as its starting point the recognition that the global economy – if it ever was - is not moving towards a common economic model. China's rise and sustained commitment to its state capitalist model means the second largest economy in the world is not following western capitalism, yet the rules and institutions operating today were largely designed around that model. There are also growing challenges from monopoly capitalism and rent capture in some domains like technology. The climate and energy transition means significant intervention in markets to deal with environmental externalities. And there is a rise in state capitalism and interventionism coming from geo-strategic competition.

This tramline then recognises that the core challenge today – starting from a high degree of trade and integration – is how to manage difference while retaining the benefits of cross-border trade, investment and the exchange of ideas and innovation. It focuses on how to manage the spillovers created by both high levels of integration and significant difference – different objectives, different policies and/or economic models. This will be more pragmatic and messier. It will involve supporting approaches that enable predictable interactions between different types of economies. It may include increasing barriers (decreasing integration from today's very high levels) in some instances in order to preserve or achieve wider stability and openness. It will involve more focus on mutual recognition and facilitating sufficient sustainable openness. And it may require reshaping some global norms and rules.

This tramline also places the emphasis on supporting international norms, rules and institutions that give sufficient space to innovate, learn and adapt in emerging areas. Uncertainty means we will need to learn as we go because national policy is being shaped at the same time as international policy. This will require the evolution of some parts of the GEO domain – most specifically in the trade domain – but also careful construction of any new norms or rule systems. For example, in emerging technology and the digital economy, there is a need to learn and adapt as we develop our understanding of the impacts of technology on society. We will need deeper integration where common standards and norms can be agreed and looser integration where they cannot. And even common approaches will likely be based on mutual recognition of national measures rather than globally enforced law.

This tramline then moves away from harmonisation as the objective and away from concepts of common global markets as the end state. The aim is not global consensus on a single harmonised form of new rules, rather how to manage frictions created by difference. Similarly, it drops any presumption of the world moving towards a common economic model and does not rely on fundamental changes to different domestic models or preferences.

New Tramline 5: Interest-based plurilateralism

This tramline sets a direction of the UK engaging in pragmatic, diverse coalitions based on interests. There are likely to be more such groupings with other middle powers, given more incidence of shared interests, and many of the examples we discuss in the policy section involve engaging with other mid-sized powers. But this is not about creating a distinct and exclusive middle powers club. It will involve different coalitions for different policy issues and will need to be dynamic over time, based on the nature of the partners and the issues at hand. Some of the coalitions will be designed to influence the wider system and larger powers and will involve them. Europe will always feature significantly here as an especially important partner for the UK and we discuss implications for our relationship with Europe in Section 4.

This tramline calls for plurilateralism to be seen as the goal. Given the differences in economic models and approaches, rising strategic competition and greater focus on resilience, deeper cooperation will be possible and desirable with some partners than others. Plurilateralism may be the end point, not always a pathway to a global outcome.

This tramline requires a shift in mindset as well as policies. It is one of the more significant shifts for the UK and is contested today. One way to think of this interest-based plurlialteralism, therefore, is as a 'banker strategy': something that makes sense for the UK to invest in across a wide range of scenarios and that will underpin elements of our approach in all of them. We have set out in the accompanying paper, **The UK's Role as a Pivotal Power - Adopting a Middle Power Mindset and Playbook**, more detail in how the UK could do this. And we have picked up specific examples in our policy proposals.

This tramline therefore moves away from the presumption that the UK's interest is always best served by membership of a US-led bloc, that such an option is always available and preferable. It takes as its starting point that the US is no longer – reliably at least – playing the leadership role that it once did. The US size means it will always have a significant impact on the UK and the economic opportunity remains large. We will retain many shared interests and there will be scope for close partnership in some domains. However, our scenarios imagine a range of future US behaviours, with variance rising, creating both opportunities and risks and calling for a more diverse partnership approach.

Taken together, these new tramlines fill out and describe what Building Secure Openness means. It is a shift from being an Activist Globaliser – it is a new true north. It retains some elements of that approach (openness, building on our strengths, seeking new markets and partnerships) while being clear that we need to add much more around power and leverage to our toolkit, and be more interventionist in securing value to the UK and giving weight to sovereignty where it matters. It also outlines a different form of international policymaking in lieu of assumed US leadership. They are a package of direction setting steers that would need to be implemented across the system and across policy.

Prioritising action across the economy

The tramlines above imply the state taking a more active role in shaping markets and international collaborations, making greater investments in resilience and security, and being more proactive in ensuring the UK retains more value from its trade and investment relationships. All of this is in response to a changing global context that we cannot fully control. There is a risk that this develops a case for government intervention that is neither workable nor affordable for the UK.

This paper is focused on implementation – the how as well as the what. We therefore offer a way of thinking about which parts of the economy this shift in approach most needs to focus on. Defining this is difficult because it involves forming new policy boundaries. We have debated this at length in the Fellowship and had some of the more difficult conversations both internally and with stakeholders about where to focus. But we think this is important. We therefore offer some ways through this before moving onto specific policy proposals.

Defining the geo-strategic economy

The starting point is that the new risks and pressures (as well as opportunities) from the changing Global Economic Order are not impacting uniformly across the UK economy. We posit that there is an emerging 'geo-strategic economy' - the part of the global economy (and by implication the UK economy) where these factors are most relevant. This is a subset of the economy. The challenge is to define it.

Drawing on academic work (including in particular a paper by Ding and Defoe[4]), our assessment of the global scenarios, previous work in the UK system and discussions with partners we propose the following:

[4] Ding and Dafoe: The Logic of Strategic Assets from Oil to AI, 2021.
https://www.tandfonline.com/doi/pdf/10.1080/09636412.2021.1915583
They define strategic assets as follows:
Strategic level = Importance * Nationalisation * Externality
The asset must have all of these features to be strategic. They argue that assets must also meet one specific externality for there to be a case for intervention. And that where more than one operates, the strategic nature of the asset is greater. This is a potentially a useful further refinement.

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.

Highly globally integrated and 'rivalrous': these are capabilities, sectors or economic assets that are highly traded/transacted across borders today and subject to strategic competition between nations. Being highly integrated is an observable fact, measured by trade and investment data. Being rivalrous is a function of the global economic and geopolitical environment and the decisions being made by the actors within it (it is not necessarily inherent to the assets themselves). It identifies areas of the economy where others will not always follow pure market approaches.

Material to the survival and resilience of the nation (under threat) and/or material to economic strategic advantage: these are features of the assets or capabilities themselves. To be material to the survival and resilience of the nation, they might be essential for national defence or military advantage, or fundamental critical parts of the national economic infrastructure that would cause material, economy-wide damage if harmed or access was denied. They will often have been picked up through concepts like critical national infrastructure or other risks assessments. To be material to strategic economic advantage, assets or capabilities might be foundational technologies with wide application that could be drivers of significant strategic or economic advantage and growth - they will likely have significant positive 'spillovers' (in economists' terminology) that drive economic advantage in a world of greater competition.

Importantly, parts of the economy (assets or capabilities) would need to meet both of these tests to be geo-strategic: (i) integrated and rivalrous and (ii) material to resilience OR strategic economic advantage.

Figure 2: Building secure openness requires investment in all three pillars

There has always been part of the economy that was thought about in this way - most obviously some defence industrial capabilities and dual use technologies. This definition today would include those. It would also capture much of energy and some frontier technological capabilities. It does though exclude highly traded sectors or capabilities that are not rivalrous in terms of being subject to strategic competition (eg creative industries or parts of financial services). And it excludes principally domestic activities like domestic transport, water and health and social care, with limited international integration.

For these assets (capabilities/sectors/technologies), the UK needs to reflect much more on sovereignty and strategic advantage in particular. The focus is on not just development of these capabilities but issues around control and use of them in the UK interest and how to retain an edge that is perceived in national capability terms, as well as economic returns. The Activist Globaliser approach implicitly gave sovereignty little active weight or consideration. This is therefore another difficult policy challenge to set scope – what is enough such 'sovereignty'? - because recent UK policy has limited embedded reference points.

We think a useful framing is that, for the geo-strategic economy of relevance to the UK, the UK should be seeking to achieve **sovereign capability** defined as:

- **Freedom of action:** the ability to operate, maintain, and upgrade the UK's 'geo-strategic economic capability' as, when, and where required without unwanted foreign interference.

- **Economic strategic advantage:** retaining or developing a technological or economic edge over adversaries, which cannot be compromised or deactivated by an unwanted third party.

This conception is an adaptation from the MOD's 2025 Defence Industrial Strategy.[5] An important qualifier is to differentiate between trusted allies and adversaries – the use of the word 'unwanted' here is to signify that shared control is only a concern where it is judged as a risk. It narrows the scope of where this matters and it allows for significant pooling and collaboration discussed later in the paper. This is not the same as sovereign capability meaning only and solely national capability – it depends on the terms of pooling and sharing and is about whether an approach delivers sufficient, effective control.

However, even this would be a stretching objective for the UK given our starting point today. As many have noted, neither sovereignty nor advantage is absolute and so this policy framing is about achieving an increase in them rather than achieve it per se. But it gives a sense of directional shift and a scope.

[5] UK's 2005 MOD Industrial Strategy. This defined 'sovereign capability' as having two elements:
a. Freedom of Action: The ability to operate, maintain, and upgrade military forces as, when, and where required without foreign interference.
b. Operational Advantage: The technological and systemic edge a nation maintains over an adversary, which cannot be compromised or deactivated by an offshore third party.

There is already a definition in the UK policymaking space that comes close to this approach for the scope of geo-strategic economic capabilities. The 2021 National Security Investment Screening Act created a core list of 17 sensitive sectors[6]. The approach to defining scope took into account three elements:

1 Critical national infrastructure – where there is a disruption concern (i.e. material risk to national resilience).

2 Dual use or military – where technology could be diverted to hostile actors or compromise operational control (i.e. control risk).

3 Emerging technology - where the UK has strategic advantage that needs protection from Intellectual Property theft or foreign control (ie relative advantage risk).

The screening regime only applies to foreign investment so it does consider globally-integrated indirectly - any purely domestic transactions are out of scope. It does not consider specifically how rivalrous the assets are in any formal sense. However, it does consider whether they are material to the functioning of the nation under threat and implicitly includes some concerns about materiality of relative military advantage.

So it is a close proxy of the geo-strategic economy. Our proposed definition would allow a slightly wider lens across the economy and include things like payments systems and critical financial architecture, where we note separately that there is work underway to develop alternatives. A practical option would therefore be to focus on the NSIA 17 sectors as the place to focus policy. The sectors are in secondary legislation which makes it relatively straightforward to amend while also providing some stability[7].

Figure 4: Focusing on core areas of the economy

[6] https://www.gov.uk/government/publications/national-security-and-investment-act-guidance-on-notifiable-acquisitions/national-security-and-investment-act-guidance-on-notifiable-acquisitions

7 The legislation has been in operation since 2021 and, after a recent review, the government has said it will bring forward legislation to make some limited changes including adding water as a new sector, specifying semiconductors and critical minerals more precisely and removing 'off the shelf' AI.

Globally strategic value clusters

A second part of the economy that we are especially interested in given the shifting Global Economic Order and the UK's level of openness are those parts of the UK economy that are our comparative strengths and sources of attraction to partners globally.

From the perspective of Building Secure Openness, we are interested in assets or capabilities that can secure the most value to the UK economy through driving greater inward investment, exports, talent flows and innovation; that can drive strategic economic advantage (an ongoing UK economic 'edge') and those that can be the basis for sustained partnership with others, including where we are seeking to build collective resilience. This will be a narrower set than all of the UK's economic strengths – some of our assets will be of limited interest to partners and/or are not highly integrated with the global economy, even if they are important in driving growth and rising living standards in the UK.

Here, policy will be interested in the cultivation of such assets and the global context provides a greater case for an activist state. The scope definition question is where is there a policy case for doing this? This needs defining to avoid (again) an unaffordable presumption that every capability, firm, cluster or attribute is an asset that needs support or intervention on this basis, and to focus policy attention consistently on where best to strengthen UK return from those assets.

There is a long-standing debate in economic policy (and government) on whether to think about these strengths or assets primarily as horizontal features of the economy (rule of law, talent and skills, strong science base, quality of infrastructure, labour market flexibility) or sectors (financial services industry, life sciences, creative industries etc). The two are linked; the horizontal strengths of the UK economy drive a particular set of sectoral strengths (eg the UK has a strong financial sector in part because of our time zone and legal system). And sectoral strengths will press for and reinforce development of horizontal capabilities (eg a strong services sector will encourage data and IT infrastructure development). Both are valid ways to view what matters for success.

However, in the context of the shifting GEO, focusing on the real-world economic clusters or sets of sectoral capabilities makes most sense for several reasons. First, it is how the rest of the world is approaching partnerships; in an era of strategic competition, countries want to build collaborations in clean technology or AI, not just with another well-managed and growing economy.

Second, for capital flows in particular, much of the most valuable investments (FDI, venture capital and equity portfolio investments) are in businesses in specific sectors, not in the UK's labour market flexibilities per se (though it clearly is a factor in investment decisions). Third, real world sectoral capabilities or assets are easier to present and engage in a compelling way consistently.

We therefore propose a new concept of **globally strategic value clusters.** These are the parts of the UK economy that provide significant economic return to the UK and generate leverage internationally. They will combine features of the assets or capabilities themselves and features of how partners and others view them – this latter part is essential for influence. Factors like having a leading edge in global quality and reputation (desirable), being long-term in nature and scalable (partnership compatible), and resilient to the risks and pressures operating in a more contested and geo-strategic world (can be sustained) will be important. This concept also embeds a sense of retaining a focus on our relative attractiveness to others, not just the absolute level of quality in the UK.

The UK's current Industrial Strategy (IS) focuses on eight sectors and these would be one way to begin to locate strategic value clusters in the UK. The IS does the first part in focusing on core areas of economic value. Our work has not covered the domestic policy space, but suffice to say the UK should invest in economic strengths to drive living standards at home. From a GEO perspective, our work and our discussions with stakeholders have reaffirmed these eight sectors as the place to start. The one addition from our assessment would be higher education, as this scores highly on some of the international attractiveness and relative strength metrics.

However, the set of globally strategic value clusters will be smaller than whole sectors. It would need to meet the additional thresholds discussed above. And as the basis for partnerships, it would be more specific. We discuss an approach for identifying these clusters in our specific policy proposal on developing a UK strategic value clusters strategy (see section 2).

Together, these two parts of the economy – the geo-strategic economy and globally strategic value clusters - will be where policymakers should focus attention in grappling with the changing GEO and applying Building Secure Openness. They overlap – some parts of the economy are relevant to both. But they are not the whole economy. Policy should consistently test proposals for intervention or support against such definitions to ensure scarce resources are focused where they can most benefit secure openness for the UK.

POLICY PROPOSALS

This section takes our framework and sets out how to implement it. What would this look like in practice? How would it be different? It is not a comprehensive policy agenda as the Fellowship did not have the time and resource for that. However, it focuses on the areas that would most need to change to implement Building Secure Openness. It draws inspiration from the case studies and history of UK economic statecraft, summarised in Box 4 below and set out in our accompanying paper.

The **Policy Proposals Annex** sets out each idea in a few pages and readers interested in any of them should consult that paper. The broad contours of each are sketched here.

Strengthening Resilience

A first set of policy actions are around strengthening resilience. Here the focus is on fully assessing the risks inherent in the scenarios and building in margins to manage the range of negative shocks we may face, including diversification.

1. **Comprehensive assessment of geo-economic risks to the UK.** The UK needs to build on the resilience work done to date and broaden the scope to include assessing the potential risks from the use of economic power and coercion. It should use rigorous frameworks consistently to focus attention on the most material risks to resilience. And it needs to embed this as a regular part of policymaking, engage with business directly, use dynamic assessment and build standing capacity.

2. **Valuing resilience consistently across government – a new duty and amending government appraisal.** The UK should adopt a new statutory duty to require all public bodies to have due regard to national resilience impacts, modelled on existing public sector duties. Alongside this, a new resilience framework for government appraisal should be embedded in the Green Book, building on the precedent set by the adoption of climate resilience, to embed resilience in public spending. [8]

3. **Increasing private sector resilience - a corporate national resilience principle.** For the UK economy to become more resilient, corporate decision making must adapt too. The UK should adopt a boardroom-level corporate national resilience principle that would require (i) comply-or-explain style resilience reporting for business and (ii) scenario stress-testing. The principle could be implemented through a range of mechanisms, including the UK Corporate Governance Code.

[8] The Green Book is the UK government's guidance for appraising government spending.

4 **A specific example - resilient payments systems.** The UK should invest in resilience through the development of alternative payments systems. The National Payments Vision and the recent development of DeliveryCo - an industry-owned, government-initiated retail-payments company — are examples of government moving in the right direction, in partnership with industry. The Bank of England and government should continue to innovate in payments infrastructure with partners as a strategy of collective resilience.

Economic Deterrence

A second set of policies are also about increasing security and resilience but are more focused on reducing the probability of risks materialising. In response to the growing risks of economic coercion in particular, they would strengthen our economic deterrence (alongside other forms of deterrence) and seek to reduce the likelihood of use through international engagement.

5 **Creating and deploying economic leverage as deterrence.** The UK needs to be able to exercise economic leverage in a contested world, principally to deter potential adversaries from coercive 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 framing, process and potential toolkit. We therefore propose that the UK should:

a. **Identify potential assets** that could be the basis for economic deterrence. 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.

b. Develop capability to **deploy** leverage in a context of national coercion, through both **broader and more sharply defined powers.** These powers should be designed with leverage objectives in mind, include careful design around interaction with negotiations, predictability and escalation, and include inter-operability 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 create capability in the midst of a crisis.

6 **Building norms for a world of strategic interdependence and economic deterrence.** The UK should also work internationally to reduce harmful interdependencies and to limit coercive behaviours by developing new international norms and rules. The UK should build on existing efforts to (i) shape new definitions; (ii) work with other powers to put these definitions into action, for example through collective dependency mapping; and (iii) over time, seek to agree new global rules that constrain coercive behaviour. The UK should also seek to build strong deterrence through a collective response mechanism amongst its most trusted partners. Much of this agenda is likely to be best taken forward with other middle powers at least initially, given shared interests.

Geo-Strategic Economy

These actions draw focus on interventions the UK should make to deepen our capabilities in the geo-strategic economy, both directly and in partnership with others, as well as how the norms of the wider global trading system will need to evolve. To inform and guide all of these specific policies, **the government should develop a clear assessment of the geo-strategic economy as it applies to the UK:** what parts of the economy are in and out of scope of policy focus. It should use this consistently in shaping policy.

7 **"NSSIF 2.0" - a fund for national strategic advantage.** The UK should create a state-backed UK investment vehicle focused on developing and retaining sovereign economic capability in the geo-strategic economy, built from the principles and approach of the existing National Security Strategic Investment Fund (NSSIF) but with a broader remit and scale. This could be delivered through an expansion of NSSIF or the creation of a new vehicle housed in an existing entity like the National Wealth Fund. In addition, 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) focused on UK economic capability.

8 **International industrial and economic collaborations – the new international economic policy agenda.** The UK should: (i) develop a programme of investment in sovereign economic capabilities in partnerships through trusted clubs; - it should focus these on the UK's interests in the "geo-strategic economy"; (ii) ensure that negotiating and delivering these forms of cooperation becomes a standing part of our international economic capability; and (iii) commission the OECD to do a study of international industrial policy cooperation models, focusing on effectiveness, impact and what works.

9 **Managing difference: a global trading system for 2040.** The UK should champion a new mission for the global trading system – specifically the WTO rulebook – for 2040. A reformed global trading system should better enable and manage difference and the emerging geo-strategic economy, while sustaining openness in a pragmatic way. 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. The UK should work with other middle powers, including through CPTPP and with the EU, to drive this agenda and should use its G20 and G7 Presidencies to incrementally build support for such a reform.

Creating Secure Markets

A fourth set of actions focuses on the need to grow new markets in areas of strength for the UK. And where those markets need trust and safety as well as openness.

10 **Shaping the future digital economy.** 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 a 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.

11 **A services-first trade agenda.** 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 services strengths. It would identify services growth markets of the future and utilise bilateral dialogues to kick start long-term work to mutually recognise rules and regulations, and build shared norms, including investing in regulatory capacity in partners to do this. In addition, the UK should develop and publish a single strategy on international standards, targeted on key markets and sectors of importance to the UK.

Leveraging Excellence

Finally, policies focused on how the UK can deepen and leverage excellence in a more competitive global context, ensuring we build strategic advantage well into the future.

12 **A UK strategic value clusters strategy.** The UK should complement its Industrial Strategy with a UK strategic value clusters strategy. This should be led by No.10 and should identify, cultivate and leverage a portfolio of the UK's 'globally strategic value clusters'. 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.

There are already examples of policies consistent with Building Secure Openness across the UK system. Some of these are the result of innovation and problem solving for this new context and show the UK is beginning to move in a new direction. Work on resilience is underway, including on payments systems. NSSIF itself is a relatively recent innovation. The Global Combat Air Programme (GCAP) is a pioneering industrial collaboration among middle powers. The Office for Investment is an attempt to be more proactive in securing investment to the UK. And the UK is beginning to join debates around wide trading system reform. But they are often specific initiatives, not at the scale required and are contested. For this reason, the Fellowship thinks the strategy and policies go hand in hand – you cannot do one without the other. The UK needs a new direction and new policies.

The UK has the tools and many of the capabilities. It has deployed them before. This landscape is a source of optimism that, with the right strategic guidance, the policy community – including through engagement with the wider 'flotilla' beyond government - could develop, innovate and fill in the gaps[9]. We have the confidence it could do so.

Box 4: British International Economic Statecraft, 1960s-1980s

URENCO and the Treaty of Almelo: in 1970 the UK established a tripartite Treaty with West Germany and the Netherlands to establish a government-owned, industry-led uranium enrichment company. It was part of a strategy of international industrial collaboration to diversify and make the UK attractive for EEC membership, and it continues to provide dividends to UK Government Investments to this day.

[9] My previous Fellow Lucy Smith's work on National Strategy identified the flotilla of actors that need to be engaged to deliver outcomes including the wider public sector, business, academia, the public etc.

Hedging and shaping the International Energy Agency: in 1974 the UK was a key player in establishing the IEA. The UK bridged competing demands for international oil reserves policy, kept the US at the table by compromising with divergent European demands even as a new member of the EEC, all while diplomatically protecting future UK energy competitiveness.

The strategic and opportunistic regulation of Eurodollars: the UK's financial statecraft has been amongst the most influential and consequential for the rise of finance in the UK and the shaping of global financial regulations. The Bank of England's strategic advocacy for insisting on national regulations, against popular demand for global rules, in response to the rise of a new kind of money in the 1970s, Eurodollars, was crucial to reviving the City's global role.

A new tool of strategic corporate influence: golden shares: golden shares were an innovation in public-private cooperation in the 1980s that allowed government to have veto power over a range of corporate decisions in different cases. Nigel Lawson, Margaret Thatcher's chancellor, came up with the idea by drawing from learning from business itself. Golden shares were gradually overpowered by EU law, but now many peer countries are using this old British tool to reframe relationships with strategic industries.

For more on these case studies see the accompanying paper "**Building International Economic Statecraft from the 1960s-1980s: revisiting key strategic decisions in finance, energy and technology amidst geopolitical disorder.**"

ENABLERS – NATIONAL CAPABILITIES

This section sets out three key enablers that we think the UK will need to develop to implement Building Secure Openness. It is not a comprehensive description of the full set of state capability needed to implement the strategy. Rather, these are the national capabilities that we most need to build or strengthen today, where we are furthest away from having the capability that we need.

Middle power mindset and playbook

See accompanying paper: "The UK's Role as a Pivotal Power: A Middle Power Mindset and Playbook"

This capability is focused on our diplomacy and how we interact with the rest of the world. It is not a theory. It is about mindset. Put simply, it is a deeper understanding (across our policymaking) of power relations and how they shape outcomes. Of the fact that, despite having a larger economy than ever with substantial assets, the UK's relative economic position in all feasible scenarios is as a middle power – one among many in a world that is dominated by three large economic blocs. Understanding that is essential in a world of greater contestation and less win-win cooperation. It means a consistent, hard-headed assessment of where we sit, and where and how we can – or cannot - execute agency and shape outcomes.

This sort of mindset is not yet embedded in UK policymaking, where there are still echoes of the UK as a great power or a confusion between our assets/strengths (where engagement rightly requires being positive and optimistic) and how much influence we bring (where there is a need for judgement and realism). Nor is this well understood in our public discourse: one reaction in our deliberative session to being presented the relative economic size of the UK compared to the US, China and the EU was "why did nobody tell us?".

The other part of this capability is about the playbook: the consistent and skilful deployment of the leverage, assets and capabilities that we do have to achieve our ends, including our soft power. This is the statecraft of how the UK can be a pivotal and impactful middle power. We need the whole of government to be deploying this in our international economic policies, across domains and across specific partnerships.

The accompanying paper provides a practical framework for understanding the types of middle powers, what they have in common and the different objectives that we are seeking to pursue: (i) driving growth and prosperity, (ii) strengthening resilience and (iii) increasing influence (of the system or major powers), and the conditions for success. It then offers a playbook for how the UK can operate as a pivotal middle power – drawing from a set of specific examples of successful middle power led or shaped initiatives.

Building this capability would involve consistent discussion and understanding of the mindset across government at all levels. It should be framing advice and choices and help us navigate where our interests differ from or align to that of others. And it would be about policymakers applying the playbook in how they develop and implement UK diplomacy across all of the 12 policies we are suggesting and beyond.

Bridging the boardroom and government

See accompanying paper: "Bridging the Gap Between Boardroom and Government"

This capability is focused on how the relationship between business and the state in the UK needs to change in order to adapt to the new reality of a changing Global Economic Order. It is grounded in an assessment that the UK's current model - and its unique features - create strategic weaknesses today. The model evolved in a world where markets were assumed to allocate resources efficiently, geopolitical competition played a relatively limited role in economic decision-making, and governments generally preferred arm's-length relationships with business. The strengths of that model remain considerable. It has helped make the UK one of the world's most open, innovative, trusted, predictable and internationally connected economies. However, it has also left the UK with a relationship that is often informal, transactional and lacking in the institutional depth found in many comparable countries.

The need for a new national capability here is grounded in the deep engagement with business we undertook during our Fellowship. Business tells us that the UK has an abundance of assets (especially talent) but needs to nurture and mobilise them better; that resilience is replacing efficiency in boardroom and corporate decision-making; and that they want a more strategic relationship with government to navigate the changing world. It is also informed by an understanding of how other countries are adapting to this new context – through building stronger channels between business and government, being more comfortable exercising state power, and having different cultures within which these relationships operate.

The capability we need to build is a new partnership between UK business and government based on a greater sense of reciprocity. The accompanying paper recommends a range of actions to build this capability. They include (i) actions to better understand the 'anchorage' of businesses in the UK (and ultimately shape policy around influencing this); (ii) actions to build a greater shared understanding of the world that business and government are jointly navigating including joint scenario development and SWOT exercises; and (iii) actions to build greater alignment in the most geo-strategic sectors and capabilities of the economy in the form of a new UK Global Strategic Industries Group.

Security and economics deeply combined across government

At the heart of Building Secure Openness is the recognition that both national security and the economy matter in how we prosecute international policy. At least in the UK and in recent times, the parts of government working on these issues have been largely distinct and with separate policy structures, governance, terminology, analytical frameworks, communities and career paths. The UK needs a way of policymaking and delivery that takes the best of both national security and international economic policy traditions and sets of expertise into account. Indeed, our examples from historical statecraft show that our successes have happened when we have done just that: in the late 1960s and 1970s, Cabinet Office and the then Foreign and Commonwealth Office established many highly integrated, interdepartmental teams, such as Project Acarus (including expertise from HM Treasury, the Ministry of Defence, and the Department of Energy) to balance commercial and security interests on uranium enrichment. See Box 4 above and our history paper for more. The challenge is how to replicate that capability proactively.

This is not a new issue for the UK. Indeed, the two previous Heywood Fellows made recommendations highly relevant to this. However, our diagnosis in this year's Heywood Fellowship, from all of the engagement we have done - with policymakers, business, academia, and other countries - is that we still have not integrated these disciplines and capabilities sufficiently. This is an enabler that needs addressing if we are to succeed – it meets the test of being a good investment in all of our scenarios.

Jonathan Black's Heywood Fellowship in 2024 was entirely focused on economic security and delved deeply into the policymaking process and capability. His proposals covered systems, people, information, business and structures and much of this enabler paper echoes the lines of assessment and argument in his Fellowship. For example, he proposed a package of capability reform, including more emphasis on cross-domain leadership skills at senior levels; creating a senior economic security cadre (with more targeted training, secondments and core roles across government), perhaps as part of the wider policy profession; and a core set of baseline knowledge across security and economics domains[10].

There have been some steps towards this in the UK. There is an emerging discipline around 'economic security' in Whitehall. Teams are being set up in many government departments to work on these issues, especially driven by the operation of new frameworks like the National Security Investment Screening Act. There are bilateral Economic Security Dialogues with other countries and in the G7. There have been attempts to create committee structures (eg a subcommittee of the National Security Council) to facilitate cross-departmental policy discussions, though none have been fully embedded or sustained through changes of government.

[10] https://www.bsg.ox.ac.uk/sites/default/files/2024-01/Capability%20reform.pdf

Jonathan's detailed interviews with stakeholders inside and outside government showed that the UK system is not operating in the way it needs to. We have heard much the same, from both policymakers and business in particular, where there is a demand for a deeper and more strategic conversation about risks and opportunities in the global environment today and the UK strategy for navigating that. To take a parallel from another domain – climate change – we can see how far we are from a new strategic reality being addressed systematically within and across government. Climate change started as a niche policy area for a few experts and eventually became embedded across departments, in domestic processes like spending reviews (in the Green Book) and regulation, as well as in established international structures like the United Nations and G20. It is done with a flotilla of actors, including business and international organisations and has established new concepts (eg adaptation and mitigation) and analytical approaches. It is the anchor for a sustained career path inside and outside government. This is not a comment on specific climate change policies – it is a reflection that the establishment of a new capability is observable when it happens (you know it when you see it) and we do not yet have that on integrating economics and security.

We therefore propose a third enabler for Building Secure Openness is to integrate security and economics in government. In other words, to implement the agenda we are outlining, we need to revisit and implement the recommendations of previous fellowships that focused more on the how. This enabler needs to be cross domain – across trade and supply chains, innovation and technology, finance and investment, energy, people and human capital. Reform needs to fundamentally rewire decision making – both the evidence for those decisions and how they are made. And it will involve, over time, building a new community of practice – a new profession - that can understand and operate across what have traditionally been separate spaces. Given uncertainty, this community will need to be comfortable with scenario analysis and futures techniques, with experimentation and agility and have strength in evaluating what works. And it will need to be grounded in an approach of partnering with others – especially but not exclusively business and other middle powers (our other two enablers).

We therefore propose the following reforms to move the UK to a more sustainable way of embedding security and economics and to help implement Building Secure Openness. These draw from and develop recommendations made by Jonathan Black in particular and focus on three areas: leadership/governance, culture and capability.

Leadership and governance

1 A clear single articulation of the new Secure Openness ‘doctrine’ – the new **shared** objectives. This is to make clear that there needs to be a whole of government effort around implementing this new strategic framework. This could be set out in a speech by the Prime Minister, supported by a new short UK government publication (like the National Security Strategy) and a cabinet discussion and direction to departments to implement. The point is to have clarity of direction and to apply it systemically.

2 A new ‘Secure Openness' Cabinet Committee with the **same** status as NSS. This is more akin to Jonathan’s proposal for a new National Strategy Council. In our formulation, the committee should be co-chaired by the Defence Secretary and the Chancellor, reflecting the two core pillars of (international) security and economics. Other core actors with responsibility for **implementing** the agenda would need to attend – especially the business/trade and energy ministries and foreign office - but this may also include the Bank of England, the intelligence agencies, or the economic regulators. It would need a genuine balance of economic and security voices around the table. The point would be to include the parts of government responsible for implementing the policies and with the relevant **expertise.** Starting afresh would give more of a signal of a new integrated approach than trying to put issues into existing governance. The role of this committee would be to implement Building Secure Openness, including by overseeing a strategic workplan building out from our proposed pioneer projects.

3 A new joint unit at the centre of government, drawing on secondees with expertise in relevant domains to implement the work programme. This would include potentially quite broad expertise including in the geopolitical context and operation of power, deterrence frameworks, financial markets and structures, industrial policy, negotiations and collective partnerships and evidence and analysis. It would draw from MOD, HMT, FCDO, BIST, DESNZ and other relevant departments. It should include secondees from the devolved administrations and engage widely across the public sector. Such a unit could be housed in a single department (as long as it drew on secondments from others) and one option would be across HMT and MOD. The most obvious place given its cross domain and coordinating nature would be the Cabinet Office.

The tasks of this unit would include:

- Secretariat to the new committee.
- Delivering the comprehensive assessment of risks, including through futures and scenarios work.
- Play its part in operationalising valuing resilience – especially in support of the new committee. It would use this approach to shape advice. (The approach would also be used elsewhere eg in spending reviews).
- Operationalising the economic deterrence toolkit and supporting decision making in its use.
- Overseeing the UK's portfolio of international industrial collaborations and priority partnerships and ensuring lesson learning across them. Specific collaborations would be owned by individual teams, likely in the relevant ministry.
- While it would not manage specific investments, it would oversee establishment of NSSIF 2.0 and/or related conditionality frameworks for other public investment in the geo-strategic economy.

Culture change

4 Alongside the structures, there would need to be a focus on culture change and embedding the new strategic direction in different ways of working. A core value across the leadership, joint unit and wider community would be equal respect and understanding for security and economic traditions with the goal of integration. This would be a new approach that combines both – and not a place where one dominates. There would need to be a strong culture of interdisciplinary teams and getting the best from all areas of expertise.

5 A second area of culture would need to be openness and working as part of a flotilla, in particular shifting to a much deeper and more strategic engagement with business. This links closely to the practical recommendations in the accompanying paper Bridging the Boardroom and Government. The culture part would be to embed in the way government works a culture of that deeper trust building and viewing the relative roles and space for collaboration in a different way.

6 Finally, there would need to be a recognition at the outset that this is a new policy approach and so there needs to be a culture of agility, experimentation and learning – including in the international partnerships and policies that the UK pursues.

Capability - build a new geo-economic profession

7 The aim here is a defined community of practice that enables people to build this as a long-term career anchor. And it echoes the capability recommendations made by Jonathan Black. The simplest model for this in government is to think of this as creating a new profession. In practice, government professions vary in scale, how new they are, the resources they command, whether they have a parallel outside government and the breadth of their professional scope is. But what they have in common is:

- Defined core skills and usually some form of certification. In this case, it would be a combination of skills in economics, basic government finance, trade as well as international relations, deterrence theory, negotiations and some understanding of the core actors like US, China and EU. Senior leaders would be expected to have developed skills across these.
- Bespoke training both mandated and optional. For a new profession, the first step would be to define a core curriculum that spans the key elements required.
- Some form of identifiable membership – through professional badging (linked to person and/or role).
- Being brought together as a community – an annual conference is a good first step and way to build a sense of community, as are specific sessions engaging external experts.
- Identifiable career paths – these can be 'soft' in the sense of having loose boundaries with the policy profession or 'hard' in the sense of proscribed roles. A first step for a new capability or profession would be to define some of the core roles both within the new central unit and in government departments and ensure that those occupying those roles are part of this new profession.

The new National School of Government, College for National Security and the College of Diplomacy could provide useful venues to bring some of this community together and help shape curriculum and professional training.

Taken together, investments in these three national capabilities – a middle power mindset and playbook; bridging the boardroom and government; and integrating economics and security across government - are necessary to enable the UK to implement Building Secure Openness. They would sit alongside other existing national capabilities and put the UK in a stronger place to navigate the changes in the Global Economic Order.

IMPLICATIONS FOR KEY RELATIONSHIPS - EU, US AND CHINA

We turn finally to what the approach of Building Secure Openness means for the UK's relations with key partners. The United States, China and the European Union (EU) will – in different ways – shape and dominate the Global Economic Order over our time horizon of 15 years. Many people would therefore have started this Fellowship from here. They would note the enduring dominance of these three blocs, begin from the presumption that the UK has to 'pick a team'; and then conclude that the choice of partnership dictates the UK's approach – it is the policy.

The approach we follow is different. It is to take our futures scenarios (which include a range of different behaviours and outcomes for each of the three blocs to 2040), the UK's core goal and strategic framework and consider implications for managing the three relationships. This consistent grounding in UK interests and objectives is good policy and the basis for good diplomacy – it is explainable even when disliked. This approach also reflects our discussions with other middle powers in particular, which have demonstrated how others balance and manage a set of important, enduring relationships - not choosing being a strategy some adopt. And it reflects our lessons from history, which consider previous periods when the UK was not in the EEC/Europe and was navigating difficult dynamics at times with the US, often demonstrating some form of balancing between these two partners. The more subtle argument is that the UK would be better off if it chose. We offer a way of thinking about how the UK can pursue its objectives with each that might help inform that judgement. But it is not our starting point.

Clearly, the nature of the partner varies – all are large but the terms of the engagement and overlap of interests will differ significantly. So the right outcome is not the same form of relationship with each.

Europe and the European Union

The UK has a specific choice in terms of relations with European Union - it offers a 'membership' model not on offer elsewhere. This section is not an assessment of the merits of membership, which has been extensively discussed elsewhere. We step back and consider the Building Secure Openness strategy to 2040 and how that intersects with the EU's interests and potential future pathways of action.

The starting point is that the EU is, today, shaping its strategic approach around an objective of 'Open Strategic Autonomy'.[11] This is similar to Building Secure Openness and is a clear basis for thinking about shared interests. The EU is facing the challenges and opportunities of the evolving GEO today as both a group of middle powers and a unique international formation.

[11] See for example, European Union Council conclusions October 2020. Achieving strategic autonomy while preserving an open economy is a key objective of the Union.

It operates in some domains (where competence is at the EU level – most obviously trade, also some areas of regulation and currency) more like an economic bloc. In others, most obviously defence but also parts of technology and industrial policy, competence remains at the nation state level and it is more like a looser collaboration of middle and smaller powers. Indeed, our discussions with European partners have revealed a range of views on whether the EU is itself a middle power, is a collective of middle powers, or is - or could one day be - a great power.

The EU – like all partners – will evolve over the time period to 2040. Considering our futures scenarios, the EU consistently (though not uniformly) emerges as the most significant geo-economic partner for the UK. This is in terms of its impact on the UK bilaterally (on trade and energy resilience for example) and, perhaps more importantly, in how it influences and shapes the wider global economy and order. In G2 and G0, the UK's interests are arguably better served by more European influence on the global stage. Closer collaboration came out more strongly as a desired approach in G vs G (for resilience reasons – both collective deterrence and pooling more to manage risks) and in G2 (for influence). This judgement is not uniform – closer collaboration was less naturally the strategy that emerged in G0 (where there is more space for middle powers generally).

Broadly, across all scenarios, it serves the UK's overall goal of sustainable prosperity and rising living standards for the EU (and Europe more widely) to be growing economically, stable and safe. And for the EU to be a constructive, pivotal power, looking outward and playing a global leadership role that supports secure openness.

Our framework would therefore suggest an approach built around:

A.

Building Secure Openness bilaterally. This might have two elements:

Stabilising and strengthening openness where there is sustainable UK consensus in support. This would include recent steps on electricity trading and science and research collaboration through the Horizon programme. Retaining adequacy decisions on data and financial services remain important elements of UK strategic openness in areas of UK strength, as would working on bilateral approaches to retain openness in the future digital economy as we shape norms around it, especially on how to balance sovereignty and openness (discussed in more detail in our policy proposal on Shaping the Digital Economy).

The EU as a core partner for industrial collaborations – especially on defence, energy and technology. As outlined in our policy proposal on international industrial collaborations, there are many models for how to do this both on the demand and supply side and many examples of doing this - in history and today - that involve European partners. The specific collaborations will depend on capacity and interest but seeing this as the strategic basis for strengthening secure openness (or open strategic autonomy) is the central tenant. On defence, this could include both shared procurement and pooled defence production. On energy resilience, it would include deeper forms of energy market diversification on clean technology. On AI, the strategic question is whether it is feasible to create a full stack outside the US or China, at a cost that makes it worthwhile. Airbus shows that it is possible to build an alternative to a US capability where the issue is principally economies of scale. URENCO shows that it is possible to develop some niche and unique technological capabilities where larger powers are not willing to share, even with allies. Exploring this new form of industrial collaboration and partnership with European partners would engage a mix of EU and nation state competence and would be best developed with tangible projects and long-term time horizons.

B. Building Secure Openness with others – engaging together globally

Here the focus would be on deepening secure openness in our engagement with others - pursuing wider 'interest based plurilateralism' with the EU. Specific examples include working together to deepen and expand trade among partners with more similar economic models and approaches (eg CPTPP/EU collaboration) as well as seeking ways to reshape the global trading system to better manage difference (discussed in more detail in our specific policy proposal on trading system reform). The EU is a natural partner on these given shared interests. Another example would be closer partnership with the EU on shaping the digital economy and establishing new norms around data free flow with trust to develop this domain in a way that develops secure openness. Again an EU/Japan axis could be a core element of the approach, alongside other partners with shared interests.

C.

Strengthening shared resilience

Here the focus would be on two areas. First, developing alternatives and diversification with the EU, for example around alternative payments systems or the industrial collaborations discussed above. Interestingly, in anticipation of the scenarios that involve further bifurcation of the global financial system, it could also call for the UK to support strengthening the Euro as a global currency, including support for deepening trading of Euro-denominated debt. Second, strengthening resilience through the reduction of risks around coercion. This would include foreseeing the case for potential collective use of countervailing power. It would call for ensuring interoperability of UK legal powers and instruments with the EU and deepening discussions on when and how it is appropriate to deploy this (discussed in more detail in the policy proposal on economic deterrence).

Some of these are steps the UK and the EU could take bilaterally, others would be done with partners internationally. In the longer term, there is a path here for Europe and the UK towards a different kind of relationship. As Europe itself changes this could involve a reshaped Europe with concentric circles and different speeds. This could evolve further – especially in the defence and technology domains where there are steps to move to close European collaboration and with partners that are not all EU members. Multi-model or speed Europe is not a new idea but the groups or circles here might be different from the trade and finance ones. There might be diffuse groups across different issues. How the EU evolves is not in the UK's gift to shape. But we should be ready if and when the EU moves in this direction.

The United States

Our scenarios work reminds us that the US matters on three particular dimensions. First, market scale in the bilateral relationship – both as a significant export market and, more importantly, as the largest source of investment into the UK. This dominant scale does not shift fundamentally in any of our scenarios. Second, that the bilateral terms of engagement are changing. This is highly variable in our scenarios and US behaviour shapes those scenarios in very different ways - whether retreating from global leadership, exerting more direct power, demanding more from allies or moving to an approach led by specific technology business interests. Third, the US role in the global system, in particular the dominance of the dollar but also in trade and energy. This relative dominance reduces in some scenarios but we do not see other alternatives take over such a dominant position - it is either US dominance or a more fractured and diversified order.

This drives an approach with the following elements. First, on openness, the US opportunity is significant and should remain a focus. Our approach would focus attention on driving private sector investment and trade. We should know what strategic value clusters US investors see as attractions of the UK, invest in those and leverage them pro-actively. It would, however, approach this in the knowledge that the policy-shaped openness of that US market has some variance to it. So it cannot be the only economic bet we place. Long-term strategy also means being mindful of risks from bilateral pressure - including on (divergent) UK policy - and reducing concentrated overdependence where possible.

Second on resilience and economic security, where the US is genuine in its offer of leading collective resilience, and on terms that engage UK interests, the strategy would support engagement, even if it means moving away from global markets. One example of this could be the proposals for a collective critical minerals club that seeks to generate more secure and resilient markets among trusted partners. If successful in securing diversification of supply and reduction in coercion risk, this would be a step forward – but it depends on the terms. On industrial collaborations, the key strategic question on technology (and defence or industrial cooperation) is what price US asks for being part of its ecosystem. This may be acceptable. But across our scenarios and approach, developing alternatives beyond the US is likely to be a strategy given likely US variance on this.

Finally, on global policies and managing difference, UK interests lie in stability and openness of the wider economy. US concerns about spillovers from China's model – eg on trade – underpin much of its approach and there is a case to seek to address the core issues. UK thought leadership and work with middle power partners can shape reforms that help hold the wider system together as set out in our trade reforms policy proposal. Similarly on shaping the digital economy of the future, the UK should be looking to work with the middle powers and build norms and standards that the US may be able to adopt in the medium-term, as its own national policy responses evolve.

China

The starting point for China is that, while it is the third economic bloc, the nature of the relationship will be different. The UK government's assessment is that China poses an "epoch defining and systemic challenge to the UK's security, economy and values"[12]. It recognises both China's global scale, reach and impact and that its interests are not fundamentally aligned with ours. China is an increasing feature of all of our scenarios and will (like all powers) seek to change outcomes to fit its interests. On occasion, this may drive scope for collaboration. At other times, our interests will diverge.

[12] This has been set out by several governments including in the Integrated Review plublshed in 2021 and Ministerial statements to Parliament since then.

Our scenarios work provided a couple of specific insights on the geo-economic elements. First, that the competition and economic spillovers from China are sectoral and are emerging more in frontier technology (AI, biotech) and clean energy. Impacts may be felt most in the UK through reliance on China as a source of inputs, including technology, and may appear more indirect and less immediately acute than for others given the structure of our economy. Second, and perhaps more significantly, China's model and rise is shaping the reaction functions of many partners. This wider context of strategic competition and how others respond is shaping the geo-strategic economy and the future of the openness on which the UK depends. This then drives a pragmatic and calibrated approach, with careful management over time. On the international economic front (the focus of our work) it might include the following elements.

First, there are some specific geo-economic issues and risks that need managing. Bilaterally, China has responded to both economic and non-economic policies with economic levers (eg with Japan, Lithuania and Australia) albeit not with the UK to date. This calls for consistency and predictability in bilateral relations – including clear communication of decisions even when unwelcome. And for reducing structural vulnerabilities over time including through collective diversification with trusted partners. Globally, China's state capitalist model is posing fundamental challenges to the trading system we have (which was designed for more similar economies) and its scale is disrupting economies of core UK partners like Germany, Japan and the US. This is not solvable by the UK alone. But UK support for reshaping the trading order to focus around managing these differences (discussed in our policy proposals) could help. As could support to the US and China over time to find a form of managed accommodation.

Second, there are some geo-economic opportunities in openness. For example, in increasing foreign investment into UK, where our screening regime deems the balance of opportunity and risk is acceptable, given China is a relatively small share of our total inflows today. However, China is not likely to be a trusted partner for the UK for deep industrial collaboration or pooling in strategic geoeconomic sectors. Policy should therefore avoid giving the impression that this is a realistic outcome or objective for the UK. Some sectors and forms of collaboration will be out of scope. Another source of opportunity may come in the depth and breadth of the Chinese market as the middle class continues to grow - digital services, some aspects of the clean technology reforms, especially market structure and advisory services. Though experience to date suggests realism about the practical scale of the opportunity.

Finally, our approach to shaping the secure forms of openness that could underpin the future. While our interests will not fully align, China has shown an interest in setting new norms and standards on AI safety and the digital economy and, in the spirit of open-by-default, the work we do on this can and should engage China to explore common baselines.

Taken together, the Building Secure Openness approach and tramlines give some directional sense for each relationship. The approach does not collapse into being pro or anti China, in or out of the US camp. It calls for a priority focus on the EU partnership but pragmatism given our intersection of interests in Building Secure Openness, both bilaterally and with others. It is, broadly, a description of hard-headed pragmatism based on UK interests that may feel, in practice, like ongoing adjustment and judgement.

Conclusion and thanks

This paper has argued that the UK's approach to the Global Economic Order is no longer viable. Our inherited approach is not robust to the era of geo-strategic competition, to the range of scenarios we may face, or to changes in the policies and behaviour of partners around the world. And it does not command public consensus.

It has proposed a new strategic approach called Building Secure Openness, grounded in a hard-headed assessment of the UK's role in a changing world. It set out that strategic framework, a set of 12 innovative policies that could be taken forward to bring it to life, where we think the biggest shifts in approach are needed, and three shifts in national capability necessary for the UK to implement it consistently. It also draws through implications of this approach for our relations with the European Union, the US and China.

There are already some emerging shifts in UK policymaking along these lines. But they are nascent, not at scale and are often contested. To be successful in this new era, the UK needs to see this as a fundamental strategic pivot, adopt it as such and implement new policies and supporting capabilities. Our work on the history of UK statecraft shows the UK has done this before – we have many of the tools and capabilities. We just need to refresh and deploy them for today's challenges.

A final word of thanks. This paper has been a year in the making. It has been a genuine team effort. As the Heywood Fellowship team, we would like to thank in particular:

- The Heywood Foundation for creating the Fellowship and giving us the time and space to reflect deeply on an important issue. It is a unique and special opportunity. To Suzanne Heywood in particular for her personal support.

- The Blavatnik School of Government at Oxford University for being such welcoming and generous hosts, providing input and challenge and giving us full support throughout the year.

- The Master of Public Policy Geoeconomics Cluster at the Blavatnik School in particular for engaging with us along the journey, asking some of the most insightful questions and hosting a podcast. We are confident you will become a thoughtful and creative next generation of leaders.

- Our Advisory Group - formed of colleagues from government, business and academia - for your insight, challenge and support along the way.

- The civil service for supporting us take up the Fellowship and for the constructive and engaged discussion we have had with colleagues.

- All of the many stakeholders we have engaged along the way – including in particular the 26 members of the British public who joined us in a basement in Oxford on an otherwise sunny weekend to discuss the global economy and the UK's place in it.

- Our families who have listened to our ideas, at times wondered quite what we were up to, but also provided unwavering support.

GLOSSARY OF TERMS

Term	Definition
Global Economic Order (GEO)	See full definition in our January Anchor Paper[1]. A complex and dynamic international system that shapes the global economy. It sits within a wider context of nation states and national security and is shaped by shifts there but is principally about the interactions that shape national sustainable prosperity and rising living standards. The GEO spans several economic domains (not just trade) which themselves interact but are sometimes treated as distinct policy spaces. Understanding the GEO requires an appreciation of the behaviour of the actors, their power relations, the norms they create and follow as well as the institutions and policies.
Domain	An identifiable area of global (or at least cross border) economic activity and policymaking, where there is a set of identifiable norms and multinational institutions and that operate with a particular set of policy objectives in mind. A domain often has an identifiable community of practice, terminology and expertise. Some actors (eg nation states) or institutions (eg IMF) operate across more than one domain. Our scope of the GEO domains includes trade, energy, finance, people and technology.
Policy tramlines	Enduring core policy settings. These are not all necessarily written down – some are norms or implicit. Core features that capture the UK’s principal approach in terms of international economic policy.

International economic statecraft	All actions a state takes to influence or establish rules, economic relationships or international economic events for the betterment of the country.
Agency	Ability to act autonomously and shape outcomes. Having freedom of choice, action and decision-making.
Asset	An enduring resource that has economic value that is expected to generate benefits for the UK over time. It can be tangible (eg a product, factory) or intangible (eg data, services, technology, process, platform, regulatory position).
Chokepoint	An economic resource or capability that: is unique to the country possessing it (or only weakly replicated elsewhere); cannot be easily substituted; and can be used to impose asymmetric cost.
Countervailing power	Ability to counterbalance or offset the influence of a dominant power.
Leverage	Ability to use power to influence the behaviour of others, in positive or negative ways.
Resilience	Ability to deter, respond to or recover from a shock or aggression.
Deterrence	The strategy of preventing unwanted actions by persuading others that the consequences will be unacceptable.
Geo-strategic economy	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.

Globally strategic value clusters	Collections of assets, capabilities and businesses that are both economically valuable and internationally attractive over the medium term.
Autarky	The policy or condition of a country aiming to be completely economically independent from others.
Middle power	A set of countries with common charactristics that are neither superpowers nor small powers. Measures often focus on (i) capabilities such as economic size, military spending or diplomatic reach; or (ii) behaviour, defining middle powers by their willingness to support international institutions, build coalitions or act as brokers between larger states. We do not offer a hard definition but instead consider three groups – Ex-Multilateralists, Connectors and Growing Powers. See separate paper for more on this.
Sovereign Capability	State ability to act that combines: Freedom of Action: The ability to operate, maintain, and upgrade economic capability as, when, and where required without unwanted foreign interference. Economic strategic advantage: Retaining or developing a technological or economic edge over adversaries, which cannot be compromised or deactivated by an unwanted third party.
Economic coercion	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.

Plurilateralism	An approach to international cooperation in which a limited group of countries work together on a specific issue. Distinct from multilateralism which often implies a broader, more global coverage of nations.
Strategic national capitalism	Having a policy orientation primarily focused on security and nationalism over any other objective. Policy has been reshaped around this including an increase in onshoring and national ownership, with more state intervention in the economy.
Monopoly capitalism	The concentration of production and economic power in a market in one firm (or a small number of firms globally).
Spillovers	An indirect, unintended positive or negative impact on third parties who are not directly involved in an economic activity or transaction. Can be at the scale to generate national or global interest.

[1] The changing Global Economic Order – towards a refreshed UK strategy

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