The New Diplomacy Project | March 2024

Value for money: The case for 3% of GDP being spent on UK foreign policy by 2029/30

Sam Goodman, Foreword by Sir Ciaran Devane

March 2024

Sam Goodman

The case for 3% of GDP being spent on the UK's foreign policy

NEW DIPLOMACY PROJECT

TOP LINES

- An incoming government after the next election should commit to the aspiration of raising spending on the UK's international interests to 3% of Gross Domestic Product by the end of the next parliament (2029/30).

- This modest commitment which would take UK spending on international interests from 2.64% of GDP in 2021-22 to 3% of GDP by 2029-30, would reflect the need to invest in the UK's diplomatic, soft power, defence, intelligence, trade, and development capabilities after thirteen years of neglect. Since 2021/22, government spending on international facing departments have only gotten further away from the 3% of GDP aspiration.

- This paper considers spending on the Foreign, Commonwealth, Development Office, the Ministry of Defence, the Single Intelligence Account, international trade policy (previously in the Department for International Development), the UK's soft power, and Overseas Development Aid in other government departments, as part of the UK's spending on international interests.

- After 14 years of neglect and underfunding, as well as periods of sustained austerity, a sober review of the resources available to international facing departments in Whitehall reveals that there is a strong case for an incoming Government to commit to investing in the UK's international capacity and standing abroad.

- Not least, is this apparent, when reviewing the heavy demands an incoming Government will face to deal with multiple crises abroad, reaffirm and reconnect the UK's standing with key partners and allies, maintain the UK's national security, and to secure the UK's prosperity and standing of living a time when the global economy faces unprecedented challenges.

- This aspiration would fit within the fiscal rules outlined by the Labour Party and could be offset to some degree from increased tax and national insurance receipts, the closure of tax relief loopholes and tax avoidance schemes, the equalisation of the tax treatment of Capital Gains Tax with Income Tax, recuperation of tax and national insurance receipts through increased expanding the headcount of the armed forces, diplomats, aid workers, trade negotiators, and intelligence security officers, and increased investment from the Ministry of Defence in the UK.

The Foreign Policy of the United Kingdom- a 3 percent solution

Foreword by Sir Ciaran Duvane

Sir Ciarán Devane is the former Chief Executive of the British Council, the Director of the Centre for Trust, Peace, and Social Relations at Coventry University, Chair of the Irish health service (the HSE), and a trustee of Friends of Europe and of the British-Irish Association. Sir Ciaran sits on the New Diplomacy Project's Advisory Council.

Somewhere in an office in Whitehall, a security threat is being assessed. What are the actor's intentions? Do they have the capability to achieve them? If successful what would the impact be? Understanding what they want to do, whether they can do it, and what might prevent them is a useful set of questions to ask. The same applies to a state's policy. What is it trying to do? Can it do it? What might stop it?

Answering these questions as regards the UK used to be simple. Maintain global security in the interests of peace and prosperity by being the best friend of the United States, having a seat at the top European table, playing well globally.

This focus on security, prosperity and influence was backed up by a 'whole-spectrum approach' which would decide the combination of capabilities best suited to each scenario. Was it enticement, coercion or a combination? The UK sought to have a more extensive toolkit than its peers. Credible military, extensive diplomacy, best-in-class aid, world-leading cultural relations actors. Britain was good across all dimensions, and sophisticated at coordination.

There was a reason why the UK's approach was successful. It addressed the three broad approaches to international relations. Realism which says you need a strong economy and a good military because you need a big stick so that your adversary does not get tempted to act up. Institutionalism which says pooled sovereignty helps progress complex issues and keeps individual states in check. Constructivism says we engender trust through engagement and participation so that you have friends when you need them.

The UK model and the thought which lay behind the full-spectrum approach (not always consciously) was that the UK should have the best possible tools in all three fields. The UK is strong militarily and has good intelligence services. It has deep diplomatic capability and is heavily engaged in international institutions. And with the British Council, the BBC World Service, a vibrant cultural sector and globally engaged universities it has good soft power.

Regrettably this model has been broken. The first issue is funding. To maintain a credible global policy takes money and in the austerity of the 2010's essentially every element of the UK's capability was diminished. The second is that the UK government has lost its strategic focus. For over a decade the ability to think ahead, to focus on the forward engagement which makes life easier and cheaper is lost to the immediate and the expedient.

But we are where we are. There is no prospect of the UK returning to its position of European influence in the short term. With the current government there is no prospect of either a coherent set of thoughts behind the transient slogan like Global Britain or of sound funding to meet the challenges of a world destabilised by Trump, Putin, and an assertive Xi never mind the latest traumas in the Middle East. Nor is available funding likely to be adequate as long as the current *government sees everything as a cost and nothing as an investment. To get back to a coherent UK foreign policy which will support our security, our prosperity, and our influence we need to agree what those intentions are, and fund the capabilities to meet them. I am taking as read that our full spectrum approach is a good one. The choice is in how to deploy it.*

The world of 2024 is one of increased awareness of great power competition. The required realist response is to have a strong economy to fund investment in current and future capabilities. These will be upgraded conventional ones such as adequate land forces backed by industrial capacity to dial up the response. But capabilities will also include enhanced surveillance, cyber, AI, and cognitive warfare skills. Intelligent spending of the 2% of GDI we spend on defence is a must.

The other familiar number is the 0.7% of GDI notionally allocated to official development assistance. This is another sensible benchmark number - if applied properly. The Treasury's habit of squeezing everything possible into ODA muddied the waters hugely. Housing refugees however is not development. Being a credible force in development is in the UK's interests so a first step should be to align the 0.7% to actual development. Doing so we should focus less on a donor model and more on capacity development and investment with decisions made with the communities in question rather than development being done to them.

Foreign policy is not just about capability and capacity. It is also about values. How we deploy our capabilities matters as much as when and where. Showcasing our values matters. Soft power is cheap to deploy, but not free. In a reimagined foreign policy, a good benchmark would be 0.3% being spent on the diplomatic network and the British Council. At the British Council it was possible to fund programmes with say Nigeria or Pakistan. But engaging properly with Saudi Arabia or Japan was well-nigh impossible. The latter's budget should however be ring-fenced to avoid the FCDO's propensity to distort the flow through to the strategic priorities of the arms-length bodies. The FCDO relationship with these bodies needs to be addressed but that is for another day.

Adding our three benchmarks together brings us to a 3% minimum foreign policy ask. In the medium term as the economy grows it is both reasonable and necessary to go beyond this. The UK will be better off for it as will the world. The exact quantum is however secondary to reestablishing a coherent long-term vision of UK foreign policy. There was a reason the UK was effective internationally when it had one. In today's time of Putin and Xi, of climate change and habitat destruction we need that again.

The state of UK state capacity on foreign policy

Under the current Conservative Government, the UK's diplomatic capabilities and standing on the world stage has been greatly reduced as a result of years of underfunding its international facing departments.

The amount that the UK spends on our diplomats, diplomacy, and soft power has significantly fallen over the last two decades in the face of departmental cuts and underfunding.

From 2010-2019, the Government has attempted to conceal the underfunding of the Foreign Office and cuts to the UK's diplomatic manpower in several ways:

1. Swapping UK diplomatic staff for local personnel in an attempt to save on visa costs, salary, travel costs, and other expenses.
2. Increasing the amount of Overseas Development Assistance (ODA) spending the Foreign Office could access through cross-departmental funds from the Cabinet Office to top up the frontline diplomatic budget. Namely from the Prosperity Fund and the Conflict, Stability and Security Fund. As well as transferring an increasing amount of ODA funds to be spent domestically, notably by the Home Office to house refugees in hotels.
3. Selling off the Foreign Office's overseas estate (including historic embassies and land) to fund the Capital Budget and day to day diplomatic spending.

Spending

From the Government of Ted Heath (1972-73) until the Government of Theresa May (2017-18), the UK Government consistently spent at least 0.1% of Gross Domestic Product (GDP) on frontline diplomatic spending.

Under the last three Conservative prime ministers spending on frontline diplomacy has fallen under 0.1% of GDP. In 2021/22 (the last available figures), diplomatic spending stood at just 0.05% of GDP.

According to the House of Commons Library, the FCO and its successor the FCDO has historically spent between 7-12% of its departmental budget on diplomatic manpower. This figure has been distorted further as a result of the merger between the FCO and the International Department for Development (DFID), which makes it harder to compare.

Over the last decade there has been a collapse in the amount of discretionary funding available to the FCDO and an increase in the use of Overseas Development Aid to directly fund diplomatic posts overseas. The merger of DFID and the FCO has solidified this trend.

The non-ODA spending available to the FCDO in 2021/22 was half the UK's spending on foreign and domestic intelligence services. To put that in context, the FCDO's non-ODA budget in 2021/22 stood at just £1.7bn compared to the £3.9bn that was spent on the Single Intelligence Account that year.

The Government's current financial settlement with the FCDO is committed to find resource efficiencies equivalent to £79.5 million by 2024 to 2025, of which at least £35.4 million will be non-ODA savings. Effectively these cuts will likely come out of the frontline diplomatic budget.

Frontline diplomatic staff

A similar story can be found when we look at diplomatic manpower. Despite the merger of the Foreign Office and the Department for International Development obscuring the true extent of the UK's diplomatic presence overseas and in Whitehall, departmental accounts show that the Foreign, Commonwealth, and Development Office has cut 1,039 staff since the merger.

The Conservatives have increasingly transferred overseas diplomatic posts from UK staff to local staff to save costs, including visa, language training, and travel costs. In some cases this has led to a decline in the quality of our diplomatic staff, with a fall in language skills and opportunities for UK staff to serve overseas, as well as issues regarding security clearance.

The last publicly available figure of the breakdown of diplomatic staff prior to the merger was 13,751 FCO staff on 31 March 2020, split between 5,263 (38%) UK-Based (UKB) staff and 8,488 (62%) local staff. According to the accounts, 1,947 UK staff in 2020 were based in diplomatic posts overseas.

As of 31 March 2022, the FCDO's total staff stood at 16,124, split between 7,076 (44%) UK-Based (UKB) staff and 9,048 (56%) local staff. According to the most recent accounts, 2,052 UK staff are based overseas. Overall, 8% less UK staff are based overseas than prior to the merger.

(ii. The state of the UK's soft power

The UK has historically punched well above its weight when it comes to the deployment of soft power overseas. This is due in no small part to the work of the British Council which offers English language teaching and examinations across the globe.

In September 2021, the British Council closed 20 offices across Europe and Five Eyes countries due to a loss of commercial income throughout the pandemic and a reduction in its funding settlement from the FCDO. This has directly reduced the UK's overseas cultural programmes and indirectly undermined its soft power standing in other countries.

As part of the funding settlement, the British Council was offered a loan credit facility in exchange for a reduction of the core grant it received from the FCDO.

Prior to the pandemic, the British Council received 15% of its core funding grant from the UK Government and generated 85% of its income through its commercial activity in teaching and examinations.

The British Council's grant in aid for work in ODA funded countries is 11% lower than pre-Covid as a result of the Government's decision to reduce ODA funding across the board.

For example, in 2021-22 the British Council received £190.5m in total funding from the FCDO. In 2022-23, that figure was reduced by 13.1% with the British Council receiving £165.7m from the FCDO.

In the Government's most recent supplementary estimate (22-23) the British Council had a further £4.5 million reduction in its grant in aid from the FCDO.

The Government has also encouraged the BBC World Service to make £28.5m in savings which has led to 382 job losses and the cutting of radio language services in Arabic, and plans to cut services in Persian, Kyrgyz, Uzbek, Hindi, Bengali, Chinese, Indonesian, Tamil, and Urdu.

Historically, the BBC World Service was funded through a direct grant from the Foreign Office. The incoming Coalition Government led by the Conservatives changed this settlement so that from 2014 onwards the BBC World Service has received 75% of its funding from the BBC licence fee.

The freezing of the licence fee by the Government until April 2024 alongside the requirement for the BBC to make “efficiency savings” has led to the world service to dispense with many of the language services which has made it a global trusted source of information and a steady champion of UK soft power.

(iii. The state of the UK’s Overseas Development (ODA) aid programme

The UK’s Overseas Development Aid (ODA) budget was cut by the Government from 0.7% of gross national income to 0.5% of gross national income in October 2021, with Ministers citing the need to reduce the aid budget in the face of the COVID-19 pandemic.

As a result of the abandonment of the Government’s pledge to maintain 0.7% GNI on ODA spend, in 2021 UK aid spending fell 21% compared to 2020. In particular, the UK saw significant cuts in its bilateral aid to Yemen, Syria, Somalia, and South Sudan.

Government cuts to the UK aid budget has left a £4.6 billion black hole in the budget compared to 2019, leading to numerous program closures in 2021, including in key areas like health and humanitarian work. Members of Parliament have criticised these cuts and experts have cited them as a causing factor in the UK’s inability to predict the outbreak of the civil war in Sudan.

It is reported that the ODA budget will face a further £1.5 billion round of spending cuts for 2023-2024, with proposed reductions including a 53% cut to UK aid to Afghanistan and Pakistan, a reduction in bilateral UK aid to African countries, and the elimination of dedicated vaccination spending.

According to statistics provided by the FCDO, last year the UK spent nearly twice as much of the aid budget within its own borders than it did bilaterally in Africa and Asia combined, spending £3.7 billion and £2 billion respectively. The International Development Committee has criticised the lack of transparency and accountability from the Home Office for ODA spend which is being used domestically to tackle inward migration.

The OECD’s Development Assistance Committee (DAC), which determines the rules on using ODA to support refugees in donor countries, have urged countries to take a “conservative approach” to counting in-country spend on refugees as ODA. Other members have taken a different approach to the UK, Australia does not not count any of its in-country refugee costs as ODA, while Sweden has set an upper limit on ODA expenditure on in-country refugee costs.

The Government’s announcement in March 2023 that it will merge the Conflict, Stability and Security Fund into a broader cross-departmental ODA fund with a larger remit, the UK

Integrated Security Fund, has driven further concerns that more ODA spending will be diverted to fund domestic security agencies.

An incoming government will face the external pressure of increasing ODA spending to respond to a multitude of crises in the Middle East, Ukraine, West Africa, and climate disasters and conflicts that have yet to happen.

(iv. The state of defence spending

The Government in the Spring Budget 2023 allocated an additional £5 billion to defence spending over the next two years (2023/24 and 2024/25), and a further £2 billion per year in subsequent years up to 2027/28 as a result of Russia's war in Ukraine. This increases defence spending by a total of £11 billion over this five-year period.

As a result, the annual defence budget will be £5.8 billion higher in cash terms by the end of the current Spending Review period (£51.7 billion in 2024/25 compared with £45.9 billion in 2021/22). However, when adjusted for inflation, the increase in defence spending over this period is expected to be £1.1 billion.

Of the £11 billion in extra defence spending over the next five years some £9 billion has been allocated to the nuclear programme (including nuclear-powered attack submarines).

Despite this increase, real-terms day-to-day core resource spending is due to fall by some 4% and below inflation public pay settlements for the armed forces are likely to continue to see a fall in military personnel numbers.

According to Professor Malcolm Chalmers at the Royal United Services Institute, the planned 16% increase in defence spending over the five years 2019–20 to 2024–25 (11% if the increased costs of operations are excluded) should be placed in the context of previous defence spending settlements. In particular, the 13.5% real-terms cut to defence spending which took place from between 2010–11 and 2015–16 (a 5% cut if declining operational costs are excluded).

Professor Chalmers notes that the Government's spending increase following Russia's invasion of Ukraine does not match the rise in spending under the last Labour government, which increased real-terms defence spending by 23% (and by 12% if the increased costs of operations are excluded) between 1998–99 and 2010–11.

In the Integrated Review Refresh, the Government set out a 'new aspiration' to increase defence spending to 2.5% of GDP, on an unspecified timetable and 'as the fiscal and economic circumstances allow'.

As a member of NATO, the UK is committed to spending 2% of GDP on defence each year. It was one of just nine of NATO member countries to have met this target in 2022, spending 2.1% of national GDP on defence.

The Government has also indicated that it plans to shrink the size of the Ministry of Defence's civilian staff by 3,000 posts, reducing the department's workforce by 5% and imposing a recruitment freeze.

Investing in the UK's international capacity abroad

After 14 years of neglect and underfunding, as well as periods of sustained austerity, a sober review of the resources available to international facing departments in Whitehall reveals that there is a strong case for an incoming Government to commit to investing in the UK's international capacity and standing abroad.

Not least, is this apparent, when reviewing the heavy demands an incoming Government will face to deal with multiple crises abroad, reaffirm and reconnect the UK's standing with key partners and allies, maintain the UK's national security, and to secure the UK's prosperity and standing of living a time when the global economy faces unprecedented challenges.

It is difficult to measure the impact this has had on the UK's standing in the world and its reputation overseas. However, any incoming government that aims to improve the UK's image with its closest allies and peers would do well to recognise the need for adequate resources to match this task.

At the very least, an incoming Labour Government will need the staff and resources to:

- Review the UK-EU Trade and Cooperation Agreement;
- Continue the UK's diplomatic and military support for Ukraine;
- Respond to the growing crisis in Gaza,
- Deal with a potential second-term Trump Presidency,
- Deal with increasing dislocation in the global supply chain as a result of tensions between the democratic world and the People's Republic of China;
- Respond to the climate disasters and work with partners on new initiatives to tackle the climate emergency;
- Deal with the impact and the causes of the challenges presented by migration;
- Improve the UK's standing in multilateral institutions and protect the International Rules Based Order,
- Protect the UK's national security from threats from non-state and state actors;
- Work on global regulations to deal with the rise of Artificial Intelligence and other emerging technologies.

It is worth noting that the Government initially allotted [£400m a year] for the creation of the Department for Exiting the European Union to undertake negotiations for the UK leaving the European Union, as well as additional funding to create the Department for International Trade to undertake trade talks.

An incoming Labour Government will not need to spend nearly as much on the renegotiations for the UK-EU Trade and Cooperation Agreement, but if these diplomatic negotiations are to be successful there will be a resource price tag involved.

Outside of the European Union and facing a period of time where our closest partners in the US and EU are moving further towards protectionist policies to invest and shore up domestic industry and supply chains, the UK will have work harder and commit more resources to maintaining its status on the world stage and the standard of living of its citizens at home.

As the Biden Administration in the US has rightly argued, it is now impossible to silo off domestic policy from foreign policy. The economic headwinds the UK is currently facing is a hostage to events overseas, from the cost of a global pandemic to Russia's war in Ukraine which has seen unprecedented hikes in energy and food prices.

Modelling by the US Federal Reserve has estimated that Russia's invasion of Ukraine has cost the global economy 1.5% in lost GDP output and led to a rise in global inflation by 1.3%. While the Bank of England has noted that energy costs for the average household nearly doubled in 2022 as a result of the war.

Total Departmental Expenditure	**21/22 (£m)**	**% of total managed expenditure**	**% of GDP**
Defence	64,704	6.2	2.1
FCDO	9,885	0.9	0.32
(ODA)	8,175		0.26
Non-FCDO ODA*	3,170	0.3	0.16
Frontline Diplomatic Spending	1,494		0.05
International Trade*	552	0.053	0.01
Single Intelligence Account	3,986	0.38	0.1
Total	**82,297**	**7.8%**	**2.63%**

**Defence ODA for stability, security, prosperity fund removed and included in Defence total figure.*
**Last year International Department for Trade existed and had independent figures.*
**ODA and frontline diplomatic spending (in red) sit under FCDO total budget and outside of total figures.*

Sources: HM Treasury public spending statistics May 2023, World Bank UK GDP estimates, FCDO ODA spend statistics March 2023, FCDO Annual Accounts 2022-23, Defence Annual Accounts 2022-23, Single Intelligence Accounts 2022-23, and Department for International Development Accounts.

According to the statistics from HM Treasury, the UK spent in 2021/22 just over 2.6 percent of its GDP on its international interests overseas. This figure is less than it was in 2016/17 when the UK's spending commitments on international interests was around 2.75% of GDP, a collapse due in part to rising government debt, the size of the UK's economy, and the reduction in its ODA spending.

Since 2021/22, government spending on international facing departments have only gotten further away from the 3% of GDP aspiration.

In the case of defence, departmental expenditure at the Ministry of Defence (excluding capital) fell from 2021/22 to 2022/23 by nearly £12bn (11.9bn). While the percentage of Overseas Development Aid being spent by the FCDO dropped by nearly 12% (11.9%).

The strategy and need for increased funding

What a progressive foreign policy strategy for an incoming government will look like is worthy of a stand-alone paper, which we intend to publish alongside this.

Without going into specific details, at the very least, an incoming Labour Government would need to consider funding for the following areas:

- Increased defence spending following the reemergence of state-based threats, namely Russia and the People's Republic of China.
- The return to 0.7% GNI being spent on Overseas Development Aid to deal with increasing climate catastrophe and conflicts in Africa, the Middle East, and elsewhere.
- An increase in the UK's diplomatic capacity to deal with complex negotiations with our European partners, to help with the peace process in the Middle East, to deal with climate talks, and to work to improve the UK's standing and influence with its closest allies.
- The return of stable funding for the UK's soft power institutions: the British Council and the BBC World Service.
- An increase of funding for the UK's national intelligence services to guarantee the UK's national and economic security against both hostile state and non-state actors.

Labour's spending rules

Under Keir Starmer's leadership, the Labour Party has been clear that it will inherit a difficult budgetary situation if the party enters into government after the next General Election. This includes the UK's public debt to GDP ratio surpassing 100% of GDP for the first time since 1961.

Labour's Shadow Chancellor, Rachel Reeves MP, has committed an incoming Labour Government to tackling waste and fraud in government spending through the creation of an Office of Value for Money.

Under Labour's fiscal rules, an incoming Labour Government would be committed to ensuring that:

1. Day to day departmental spending must be "sustainably" funded.

2. The UK's public debt to GDP ratio will fall by the end of the first term of a Labour Government.

There is a specific carve-out for an incoming Labour Government to "sustainably borrow to invest where necessary". It is this specific carve-out which will be used to fund a Green Prosperity Plan.

Internally, Labour Shadow teams have been directed that any new departmental spending commitments must come from identifying waste and fraud in pre-existing budgets.

Committing to the aspiration of 3% of GDP being spent on international facing departments would be in line with Labour's fiscal rules, in particular its carve-out of "sustainably borrowing to invest where necessary".

For this aspiration to be met, the UK Government would need to find an additional £11.3bn a year to spend on international facing departments and UK interests overseas.

How could this aspiration be met financially?

- *Increased tax receipts*

The UK has historically raised less tax revenue than the average of countries in the Organisation for Economic Co-operation and Development (OECD).

According to the Office for Budget Responsibility forecasts, taxes and social contributions will rise from 36.3% of GDP in 2022/23 to 37.7% of GDP in 2027/28. This means that an incoming Government would inherit a position where tax receipts and social contributions bring in an additional £42.9bn a year. Some of which will already be committed to spending, but some which could be diverted to other priorities.

- *Closing tax relief loopholes and clamping down on tax avoidance*

The UK Exchequer spent £195bn on 105 non-structural tax reliefs in 2021-22. This was an increase of £30bn from the total for 2020 to 2021.

In the past, Labour has committed to reviewing corporate tax reliefs in government which could raise at least £4.3bn from closing tax relief loopholes. An incoming government could use money saved through closing tax relief loopholes to help fund some of the increased spending for the UK's overseas commitments.

HMRC estimates that the tax gap between the amount of tax it expects to be paid and the amount it received for the financial year 2021-22 was £36 billion. The reasons for this gap in tax paid include, tax avoidance, financial crime, errors, and a lack of sufficient care.

Labour previously committed in 2017 to raising £6.5bn by closing tax avoidance loopholes. This built upon its previous manifesto commitments in the 2015 General Election. If an incoming government could raise a fraction of this figure by closing tax avoidance loopholes this could help fund some of the increased spending for the UK's overseas commitments.

- *Commit to treating Capital Gains Tax with Income Tax*

As it stands people who earn income from their investments such as stocks and shares can pay capital gains tax at a rate of 20% rather than income tax, which is as high as 45% for earnings over £150,000. This instils an unfairness and incoherence when it comes to the treatment of earned income in the UK tax system.

Both IPPR and Tax Justice UK have noted that if an incoming government equalised the treatment of Capital Gains Tax to Income Tax this would raise around £14bn a year.

This one tax change alone could easily cover the additional money needed for the UK to meet the aspiration of funding its international commitments by 3% of GDP by the end of the parliament.

- *Money recuperated through taxation and national insurance*

It is estimated that the Exchequer nets around a third of increased public spending on wages and employment for public sector workers in increased tax and national insurance receipts.

Within this context, the Exchequer could recoup a third of all increased spending on international departments that includes expanding the headcount of the armed forces, diplomats, aid workers, trade negotiators, or intelligence and security officers.

- *Increased domestic investment and economic growth*

According to Ministry of Defence figures, in 2019/20 it spent £20.3bn on UK industry and commerce which supported 202,000 direct and indirect jobs.

This investment contributes to the maintenance of high-value and well-paid manufacturing jobs, in areas that have historically seen industrial jobs gutted. In the case of the North West, MOD expenditure in 2019/20 was £310 per person.

It is therefore possible to conclude that by raising the amount the UK spends on national defence, the Ministry of Defence's expenditure and investment in the UK would increase leading to further economic growth, employment, and increased revenue for the Exchequer.

- *Increased foreign direct investment and international students*

Research by the University of Edinburgh and the British Council has found a correlation between the number of cultural institutions a country has overseas and the return on foreign direct investment and international students from host countries.

According to the study commissioned in 2017, a one per cent increase in the number of cultural institutions in host countries brings on average a 0.66 per cent increase in Foreign Direct Investment from that particular country.

Similarly, the study found that the establishment of cultural institutions brings with them on average a 0.73 per cent increase in international students for the country of origin.

Recommendation

An incoming government after the next election should commit to the aspiration of **raising spending on the UK's international interests to 3% of Gross Domestic Product by the end of the next parliament in 2029/30.**

This modest commitment would reflect the need to invest in the UK's diplomatic, soft power, defence, intelligence, trade, and development capabilities after thirteen years of neglect. It would also be in line with the current fiscal rules outlined by the Labour Party for its first term in government.

Such an investment would provide an invaluable return for the UK, securing more investment and trade opportunities, guaranteeing the UK’s voice and status at multilateral institutions, increasing the UK’s soft power in the eyes of our partners, ensuring the UK’s security, and investing in capabilities to mitigate the threats posed to the public and economy from an increasingly unpredictable world.

It would give a broad group of international facing departments, Ministers, and officials, some adaptability in terms of spending to meet a host of unpredictable foreign policy crises, rather than the current model which requires these departmental budgets to be supplemented by ODA spending which comes with strings attached.

It would deflect against criticism of previous governments that lay out ambitious plans for the UK’s role on the world stage, but at the same time hamstring the national interest by cutting resources to deliver on these plans.

With a modest increase in the amount we fund our international interests, the UK Government could revive our diplomatic manpower post-Brexit, properly fund our oversized soft power, ensure our military are equipped for the reemergence of state-based threats, and see a return to 0.7% of GNI being spent on overseas development aid.

We intend to publish a separate strategy paper to sit alongside this paper.

The Author:
Sam Goodman is co-chair of the New Diplomacy Project and the Senior Policy Director of the China Strategic Risks Institute. He previously worked as a political advisor for the Labour Party in the Shadow Treasury team and is the author of *'Running out of credit? The decline of the Foreign Office and the case for sustained funding'* which looked at historic cuts to the Foreign Office budget.

Reviewer:
Tim Durrant, is a Program Director at the Institute for Government and previously worked at HM Treasury and the Department for International Development.

About the New Diplomacy Project:
The New Diplomacy Project is helping the UK to develop a progressive foreign policy for the 21st Century. Our experienced network of foreign policy researchers provides expert advice to parliamentarians, from real-time reactions to global events to in-depth policy briefings on complex areas of foreign policy. We seek to expand the capacity of the centre-left to think about foreign policy.
www.newdiplomacy.uk
@NewDiplomacyUK

NEW
DIPLOMACY
PROJECT