British Foreign Policy Group

THE PRICE OF FREEDOM?

A 3% GDP TARGET FOR SECURING UK INTERNATIONAL INTERESTS

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Thanks also to Paul Forrest & Rebecca Jones of Midlands Economic Forum for their input and research

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The work of the BFPG is supported by

Foreign & Commonwealth Office

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Introduction

The Price of Freedom?
A 3% GDP Target for Securing UK International Interests

By Tom Cargill @TheBFPG[1]

- In a resource-constrained environment when all the services and departments upon which we depend must fight ever harder for taxpayer resources, how much should the UK be spending on our international engagement?

- Currently, as the table below demonstrates, the government is spending around 2.75% of GDP on all our international interests, or around £53.8 billion in 2016/17 – the last year for which we have comparable data. The lion's share of this is on defence, at £35.8 billion, followed by DFID's £8.1 billion share of the total £13.3 billion spent on overseas development. The remaining £4.5 billion is split fairly evenly between spending on the Foreign Office at £2 billion, and intelligence at £2.5 billion.

- The question is whether this is sufficient to protect and promote our interests and values internationally at a time of unprecedented change in our international circumstance. A growing body of evidence suggests the UK is not investing enough presently, particularly given the ambition to remain 'Global Britain' post-Brexit. This paper raises some of the issues and a possible answer by considering the implications of a 3% of GDP target for spending on all our international engagements.

INTERNATIONAL ENGAGEMENT EXPENDITURE

Source: PESA, DFID, MoD & ME.

	2016/17 (£m)	*% of Public Expenditure*	*% of GDP*
Total Notional International Engagement Expenditure	**53,833**	**7.5**	**2.75**
Defence	35,866	5.05	1.83
Single Intelligence Account	2,514	0.35	0.13
Foreign & Commonwealth Office	2,048	0.29	0.10
Department for Exiting EU	24	0.00	0.00
Department for International Development	8,100	1.14	0.41

This table does not include ODA directed via DBEIS, but it is part of the total. ODA equivalent to 0.7% of GNI.
Total defence related spending equal to 2% GDP.

**FCO Spending included some inflows from other departments, including DFID as part of the Conflict, Stability & Security Fund*
DIT Spending was not allocated for the reporting year.* ***Table Courtesy of Midlands Economic Forum*

The British Foreign Policy Group is an independent not for profit organisation established to improve the quality of national engagement on UK foreign policy, and generate new thinking around how the UK can pursue our common national interests from our international engagements. The group takes no institutional position and all views expressed are those of the author. Established in Autumn 2016, the British Foreign Policy Group engages people across the UK and our Overseas Territories through events, accessible, reliable information and digital outreach.

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Changes in the world order with different threats to security are posing new challenges for the UK

Images: PA Images; https://webstresser.org/; UNMISS

Why is the UK increasingly challenged Internationally?

Post-Brexit, the UK is embarking on a new and untested international direction as the world becomes increasingly unpredictable. Massive economic, social, technological and political changes are underway globally. The decay in international support for once established notions of free trade, the development of powerful technologies such as AI and robotics, and the emergence of Africa as host to up to 40% of the world's growing population are just some examples. These changes are playing out at multiple levels, presenting new diplomatic and security threats, as well as opportunities. At the same time, multilateralism appears on the retreat, and with it the ability to share resources and capacity with allies is also shrinking. This is taking place in a context where the interlinkages and cross impacts between different aspects of international engagement are increasingly recognised. The Sustainable Development Goals for instance, agreed in New York in 2015 make it clear that issues of People, Prosperity, Planet and Peace must be addressed together, and that Partnerships between Governments, the Private Sector and Civil Society must be developed for that to happen.

Diplomacy

Anticipating this, many countries such as China are investing ever more in their tools of international engagement – whether military, diplomatic or soft (or 'sharp') power[2]. In contrast, and despite recent additional and welcome Brexit related funding of around £120 million[3], the UK has overall reduced investment in its international engagements significantly over past decades[4]. Core funding for diplomacy beyond that which is funded by overseas development assistance alone has fallen by at least 20% over the past decade, with recent increases tied to Brexit doing little to reverse the long-term overall decline in

[2] See *'Joseph Nye, How Sharp Power Threatens Soft Power, Foreign Affairs, January 24th 2018'* https://www.foreignaffairs.com/articles/china/2018-01-24/how-sharp-power-threatens-soft-power

[3] Figures taken from *FCO Press Release 21st March 2018* https://www.gov.uk/government/news/foreign-secretary-announces-250-new-diplomatic-roles-and-ten-new-sovereign-missions-overseas

[4] For a more detailed consideration of the latest iteration of the UK's own strategic process, the 2015 Strategic Defence & Security Review, and implications for funding see *'M. Chalmers, Spending Matters: Defence and Security Budgets after the 2015 Spending Review, RUSI Briefing Paper, 2016'* https://rusi.org/sites/default/files/chalmers_spending_matters_1.pdf

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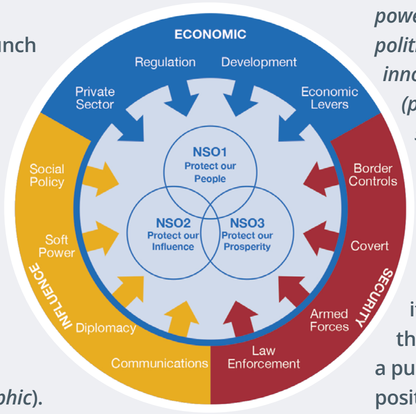
UK responses to Growing Global Volatility

In March 2018 the UK government published its National Security Capability Review, the first of a number of reports setting out how, from a national security perspective, the UK government will respond to the decision to leave the EU and the accelerating volatility in the international system. At its core is the launch of a new 'Fusion Doctrine' that seeks to draw on the UK's collective economic, security and influence capabilities to optimise the UK's national interests overseas. Key aspects of this Fusion Doctrine were prefigured in a November 2017 report by the BFPG '*Rising Power: Revitalising British Foreign Policy for a New Global Era*' [5]



One aspect that is now receiving growing attention is how to engage with the UK's 'soft power' actors in relation to all of this (*see graphic*). There are a number of interpretations of soft power. In essence it relates to the ability of a country to influence others through the power of attraction and example as embodied in the international activities of cultural, creative, sport and other non-governmental bodies. A good background document is an October 2017 Report by Edinburgh University Institute for International Cultural Relations conducted for the British Council. The report lists some of the activities government ministers have recently referred to as soft power 'assets'.

"... Ministers...listed what they saw as the UK's soft power assets: its values, democracy, economic and political freedom, freedom of speech, education, innovation, the English language, culture (particularly the BBC), the arts... heritage, and sport." (Page 8).

A strategy touching on most or all of these sectors could potentially be significant in its impact. It is a welcome recognition that the UK needs to redefine and invest more in its international engagements. Yet central to the success of any soft power strategy will be a public engagement on the UK's international position that employs a clear, accessible, realistic narrative for 'Global Britain' and one that focuses on what the UK wishes to achieve globally, including in relation to spending. As the Foreign Affairs Committee and others have pointed out [6], without this clear narrative the government risks losing credibility with the public just as their support – increasingly courted by rival interests - becomes ever more critical to securing our international objectives.

the UK's international diplomatic capacity[7]. Even the expansions in posts in recent years has seen a thin network of UK staff stretched ever more, particularly now European posts are being restaffed. One visible change, noted is the long-term decrease in numbers of UK staff at embassies around the world, particularly those with specialist language and other skills, and growing dependence on locally engaged and more junior staff[8]. The recent announcement of additional funding and the opening (or reopening) of nine additional posts is a welcome recognition of the growing strain the network has been under. Other initiatives, such as One HMG Overseas, have been important if challenging attempts to encourage better coordination and support between different UK government departments around the world. Yet the credible limits of the 'more with less' approach to diplomacy were arguably passed some years ago, and only a sustained and steady growth in support will ensure UK diplomacy can maintain, let alone substantively extend it's capabilities to match the growing international challenges it is likely to face in coming years.

Defence

Equivalent challenges for UK defence are widely recognised, and whilst funding is far from being the sole challenge, the emergence of a reported £20 billion black hole over coming years should be deeply concerning at a time when hostile acts against the UK homeland by state and non-state actors are becoming not just a growing probability, but a repeated reality[9]. Several generations have grown up in the UK protected to a great extent from the possibility of large scale direct military threats to our towns and cities, secure in the knowledge that our defence and security apparatus was more than a match for any potential adversary. Unfortunately, this era may be coming to a close as adversaries are investing and innovating more in technologies and capabilities that match or even surpass our own. The undermining of the international rules-based system by Russia and other countries, the growing sophistication of information manoeuvre and rise of hybrid warfare also make the use of such technologies harder to predict, assess and react to proportionately.

[5] T. Cargill '*Rising Power: Revitalising British Foreign Policy for a New Global Era, BFPG Report, November 2017*', http://bfpg.co.uk/2017/11/report-rising-power-revitalising-british-foreign-policy-for-a-new-global-era/.

[6] See for example '*Edward Elliott, #Global Britain & The Value of a Nation Brand, BFPG Article March 2018*' http://bfpg.co.uk/2018/03/globalbritain-and-the-value-of-a-nation-brand/

[7] See for instance '*A Short Guide to the Foreign & Commonwealth Office, National Audit Office, October 2017*' https://www.nao.org.uk/wp-content/uploads/2017/09/Short-Guide-to-the-Foreign-and-Commonwealth-Office.pdf

[8] Private interviews

[9] See '*Ministry of Defence: The Equipment Plan 2017-2027, National Audit Office January 2018*' https://www.nao.org.uk/report/ministry-of-defence-the-equipment-plan-2017-to-2027/

Soft Power

Crucially, key aspects of our soft power, still hugely respected around the world, are increasingly being constrained through lack of investment and coordination, particularly in relation to engagement with upper income and advanced economies, arguably those who have most immediate influence in the growing contest of ideas and values, and with most ability to hinder or help promote the tolerance, reason and freedoms that our way of life depends upon. This is reflected in the British Council's anticipated reduction in engagement with Europe and North America due its government funding potentially being restricted to overseas development money that must be spent in lower income countries[10]. This is just at the time when arguably we need to be championing our values ever more persuasively with these key partners for international stability and fairness.

A more coherent and funded approach, complementing the One HMG Overseas strategy, could deliver significant enhancement to UK Soft Power capacity at a time when our commitments are increasingly being challenged internationally. Bodies such as VisitBritain, hitherto little recognised as foreign policy actors, play an enormously important role in developing the relationships and understanding of the UK that are prerequisite for the success of traditional diplomacy. The Government's recent announcement of a 'Soft Power Strategy', bringing more coherence to the interactions between the UK's multiple soft power actors, is a potentially important step to address some of these challenges.

International Development

International development is one area where the UK can demonstrate a powerful, world leading track record. The legally binding commitment to spend 0.7% of our GNI (06.8% GDP) on development assistance reinforces the UK's reputation as a responsible and influential international actor. This is both in our own and in the global interest at a time when the value of international development efforts is being questioned in some parts of the world and distorted in others. Recent evidence of wrong-doing and waste are a reminder of the need to remain vigilant and self-critical, but also of our obligation as relatively privileged members of the global community, to use our power generously and responsibly on behalf of both our own taxpayers and those we seek to support.

Despite all this, the 0.7% commitment remains contentious with the public and parts of the news media. Cross party support in Parliament for 0.7% is fairly robust, and the commitment plays an ever more central role in government rhetoric as to the values that make the UK a leading power post Brexit. However, advocates understandably fear a dilution or reversal from the commitment, particularly as Overseas Development money is increasingly being channelled to be spent by departments other than DFID[11]. There are concerns, denied by government, that ODA (Official Development Assistance) is being used to pay for various defence and Foreign Office activities which have questionable development value, to supplement stretched resources[12]. This is in addition to the concerns that ODA is distorting UK soft power focus in relation to bodies such as the British Council. Against this, there are practical reasons why DFID is not always the appropriate vehicle for disbursing funds qualifying as ODA. One basic example is the interdepartmental security and administrative functions provided by the FCO in qualifying low income countries. But there are also specific qualifying programmes for which the FCO is in some cases better placed to deliver as part of an inclusive approach to development in a manner implicitly recognised in the Sustainable Development Goals. Unfortunately the constant pressure on non ODA FCO spending arguably makes it harder to have a mature conversation about such issues.

Trade & Investment

Finally; promoting trade and investment is an increasingly critical aspect of international engagement for the UK. Ever more countries are competing ever harder for exports and growth. The UK needs to innovate if it is to level an increasingly tilted playing field upon which UK based companies operate internationally. The last comparable set of figures for international spending pre-date the establishment of the Department for International Trade as a stand alone Department of State, which itself was a recognition of the challenge the UK faces. Yet lack of public funding is arguably not the key challenge facing trade and investment promotion in the UK. Instead, critics question whether yet another departmental reorganisation is the answer to the challenges that have long dogged UK trade promotion efforts. This is one area where a radical privatisation and market driven model with strong government oversight could deliver far better returns than current arrangements.

[10] *'British Council's era of soft power ends as it winds up work before Brexit'* The Times August 5th 2017 https://www.thetimes.co.uk/article/british-council-s-era-of-soft-power-ends-as-it-winds-up-work-before-brexit-s53h2ngvb

[11] See *'Statistics on International Development 2017, DFID 2017'* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/660062/SID-2017b.pdf

[12] See for instance 'Simon Maxwell, Six Questions Regarding Foreign Office management of UK aid, Blog post, 24th November 2017' http://www.simonmaxwell.eu/blog/six-questions-regarding-foreign-office-management-of-uk-aid.html

Implications of a 3% International Engagement Spending Target

In reaction to growing criticism that the UK is not investing sufficient resources in most aspects of our international activity, there has been growing interest in encouraging the UK government to commit to a spending target of 3% of GDP on securing our international prosperity, security and diplomatic interests. So why choose a 3% target; what impact would it have on spending, and how do we ensure it adds to rather than undermines commitments already made on defence and development assistance?

The main reason for setting a specific target of 3% GDP is that it is a modest rounded increase on the current 2.75% spending. It would help in discussions with the wider public, who often have inflated perceptions of spending on all aspects of foreign policy[13], to point out that such a small percentage is committed to all our publicly funded international engagements including defence. At the same time it would allow meaningful increases to our defence, diplomatic, trade and soft power projection at a time when this investment is ever more urgently required. Importantly, such a target, when met, would provide stability and allow for longer term planning for the FCO and the British Council in particular which is so lean that it is currently disproportionately exposed to relatively small fluctuations in demands and funding.

Lifting spending from the current 2.75% to 3% would likely mean an additional £4.9 billion to be invested in our international engagements. The question is, how might this be allocated? What follows are some initial thoughts to provoke discussion.

Department for International Trade – Suggested Budget £500 million

The Department for International Trade was not budgeted separately in the year for which we have comparison figures with other departments. It currently operates on around £400 million. As indicated above, a lack of funding is arguably not the central challenge facing UK trade and investment promotion efforts. More substantive is the challenge posed by the traditional government bureaucratic model in delivering dynamic and, in some cases, specialised commercial objectives. This could be one area ripe for deep-seated innovation, including privatisation with incentives for delivery within a robust oversight framework - the subject of future BFPG work.

Foreign & Commonwealth Office – £1.5 billion extra

After years of cuts, and despite recent news of additional funding, the FCO requires significant investment in staffing and resources. An additional £1.5 billion would still leave it amongst the smallest spending departments in Whitehall, dwarfed by most other departmental budgets. However, an increase phased in over time, would allow the FCO to retain and invest in its embassies and other posts abroad, reversing the ongoing sell-off of prestigious properties, and supplementing the current valuable locally engaged network with more skilled, specialised multi-lingual UK diplomats posted abroad. It would lift the FCO onto a comparable funding platform to the diplomatic spending per head of countries such as France, Germany, Australia and Canada[14].

Defence – £2.3 billion extra

Insufficient funding is not the MOD's only challenge, but at a time when threats to the UK are growing, an additional £2.3 billion will ensure the 2% of GDP NATO defence spending commitment is credible to our allies and adversaries. It will also make a much-needed contribution to ensuring the future capabilities of our armed forces at a time when these are being increasingly challenged and questioned.

[13] On public perception of spending on ODA for instance see Page 17. 'Leni Wild, Will Straw & Alex Glennie, Understanding public attitudes to aid and development, IPPR/ODI, 2012' https://www.ippr.org/files/images/media/files/publication/2012/06/public-attitudes-aid-development_June2012_9297.pdf?noredirect=1

[14] See 'The FCO's Performance & Finances 2013-2014' Foreign Affairs Committee https://publications.parliament.uk/pa/cm201415/cmselect/cmfaff/605/60506.htm. Revisiting current budgets show the relative performance has not changed.

Soft Power/ cultural relations – £200 million extra

The UK has an enviable track record and capacity in soft power and international engagement; however, as countries around the world are innovating and increasing their soft power influence, the UK is arguably falling behind. An extra £200 million split between our globally pre-eminent institutions such as the British Council and the BBC World Service would be a game changer in future proofing our status as a global leader in soft power.

Remainder - £400-£500 million

This sum could be committed to innovative projects that support UK global power projection but which don't fall neatly into the departmental priorities outlined above. This could include support for UK regional or civil society initiatives that promote UK interests such as around climate change, twinning, global governance or international trade reform.

Specific examples might include:

- Additional funding for key UK soft power assets such as Westminster Foundation for Democracy & BBC Monitoring
- A contingency fund for responding to natural disasters around the world that fall outside the criteria for ODA funding
- A doubling of funding to UK international scholarship schemes such as Chevening, Marshall & Commonwealth schemes
- A fund to fight specific environment and conservation issues globally, for example to reduce the use of plastics in the developing world, or protect endangered species.

One final area of growing need is in relation to increasing international activity and ambition by UK regions. This is partly in response to concerns that Whitehall does not always understand or effectively prioritize the international priorities of large metropolitan, regional or devolved administrations. Funds dedicated to particular regional initiatives could provide a significant boost to such efforts on the basis they are coordinated and aligned with wider UK priorities. Such a quid pro quo could be a very visible signal that our foreign policy is there to serve British Communities wherever they are.

International Development – 0.7% GNI Guaranteed (0.68 GDP)

A core objective of the 3% target would be to protect commitments already made. It would also ensure that ODA remains focused on development and is not diverted to make up for insufficient funding elsewhere. This would address a core concern of development advocates that a 3% target might allow governments to shift resources within the 3% envelope from development to other commitments. Quite the reverse; by supporting a 3% target advocates are ensuring the effectiveness of UK aid is not compromised by the temptation to supplement stretched budgets elsewhere.

Conclusion

To make the 3% GDP commitment to international engagements, hard choices would need to be made in diverting resources from other pressing requirements. Such a course would require leadership and strategic direction. It would need to be phased in over a number of years to allow departments, particularly the FCO, to build their capacity to absorb the increase. It would seem reasonable for instance to approach the 3% target as being an ambition to achieve by 2020. Yet such a target would arguably ensure that the overwhelming majority of government spending, equivalent roughly to 42% GDP, that remains focused on domestic priorities, is properly defended and promoted in an increasingly unstable world; a world which ultimately defines our choices and opportunities as a country. As the UK and the world enter a new and uncertain period, such an investment seems reasonable, and perhaps overdue.

It has been promised that Brexit will deliver a dividend, and arguably some of that dividend is invested in our security, influence and prosperity abroad, particularly in a world of growing threats to British communities. A commitment to address the perception that foreign policy is too often loaded in favour of elite interests should be a key aspect of this. Taken together, a 3% commitment would enable us to position the UK internationally as a more united and effective international actor in support of our own, as well as global interests.