

## Britain's place in the global economy

The British economy, and its place in the wider global economy, has shifted dramatically from the early days of British sea exploration in the 16th century, through the Industrial Revolution of the 18th and 19th centuries, to the global world of today.

In the 19th century, the rapidly industrialising UK was one of the world's most open economies, with trade climbing to half of its overall national income – compared to 35–40% in France and Germany and around 10% in the United States. Britain exported mainly manufactured goods – specialising in textiles, shipping and iron – while importing raw materials from the Empire and other resource-rich countries. It also was the source of almost half of the world's foreign

direct investment (FDI) at the outbreak of the First World War, while receiving less than 2% itself, and had one of the world's highest rates of net emigration.

Whereas in the 19th century Britain forced openness through industrial dominance and naval power, through the 20th century openness became increasingly secured and influenced through multilateralism, regionalism and the setting of international rules. Once trade with the Empire and Commonwealth began to fade in importance after the Second World War, membership of the European Union and its predecessors became the centrepiece of Britain's global trade policy.

Today, the UK economy is diverse and one of the largest and most prosperous on the planet with a GDP per capita that puts it 3rd among the world's ten largest economies. The bulk of the economy is service-based: from the large and world-beating financial and insurance industry, through professional, technical and support services to the smaller but internationally renowned cultural sector. And, contrary to popular belief, the UK still makes, shapes and builds things too: its manufacturing sector is the 9th largest in the world; construction is the other large non-services sector; while the oil & gas sector remains crucial in strategic terms.

Britain remains a trading nation. Over 65% of its GDP is linked to trade – higher than that in many other large advanced economies including France (57%), Italy (59%) and Japan (31%). The UK has particular export strengths: for example, it is the second-largest exporter of services in the world after the United States; OECD data indicates that the UK's comparative advantage lies in chemicals, transport equipment and food & drink.

For an island nation covering 0.16% of the world's land area and with 0.9% of its population, British influence around the world remains extensive. It has a permanent seat on the United Nations Security Council helping to shape global affairs; it is a major force in the world's most powerful military alliance, NATO; its economy is the 6th largest in the world, underpinning its leadership roles in both the G8 and G20; it is a leading member of the European Union, the wealthiest trading bloc in the world; the economy is diverse with export successes in manufacturing and services; and it is both a major recipient and significant source of global investment.

But the world is changing and so too is Britain's place in it. Growth in China and India is shifting the economic centre of gravity to the East – a process accelerated by the worst financial crisis in the developed world since the Great Depression. Although Britain will undoubtedly remain a prosperous nation, the coming decades will see its weight in the world economy fall back as today's emerging powers – the BRICs and other countries such as Mexico and Indonesia – take their places among the world's largest economies. The rise of emerging nations is also changing the nature of global trade, with the emerging world exploiting a comparative advantage in lower labour costs in labour-intensive sectors.

Closing off from this world is not how the UK will create and keep the jobs it needs to pay for public investment and provide a decent standard of living for all its citizens, or maintain its status as a global leader. We must decide if the best way to be outward-facing and globally competitive lies in continuing to use and influence the EU to maximise integration and interdependence with economies all over the world or, instead, in attempting to reverse this process and return to a system of bilateral ad hoc arrangements.