

# How the circular economy creates growth and investment

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Today, the UK's economy is largely 'linear', ie raw materials are extracted, processed, manufactured, used and then thrown away. A circular economy, by contrast, prioritises activities to keep resources in use at their highest value for as long as possible, reducing the need to extract more.

The government is expected to publish a Circular Economy Growth Plan for England early this year, aiming to become "an international leader in circular design, technology and industry". The plan will focus on six sectors: construction, textiles, chemicals and plastics, transport, electronics and agrifood.

Analysis by Strategy&, part of the PwC network has [shown](#) that a more circular economy can boost growth and build on UK strengths. It found that a realistic, near term scenario, in which the UK matches existing best practice in just four sectors, could grow GDP by one per cent, or £25 billion, creating 170,000 associated jobs. For comparison, the government's planning reforms are forecast by the Office for Budget Responsibility (OBR) to grow GDP by [0.4 per cent](#). The four sectors modelled are construction, packaging, textiles and electronics.

### **The UK is heavily reliant on imports of virgin resources, exposing it to economic risks**

- [Over 80 per cent](#) of material for the UK economy is extracted abroad, often imported as finished parts and products. The per person material footprint is more than [twice](#) what the UN says is sustainable.
- Globally, the use of resources is skyrocketing, with extraction of material resources (fossil fuels, minerals, non-metallic minerals and biomass, like wood and crops) nearly [quadrupling since 1970](#). This is driving 55 per cent of global emissions and over 90 per cent of biodiversity loss, increasing the likelihood of disruptions.
- Supply chain shocks are now the norm. The Green Finance Institute has said that nature's depletion in UK supply chains could knock [six per cent](#) off the country's GDP by the 2030s, greater than the hit caused by the 2008 financial crisis.
- Critical minerals are a particular concern. The UK is over 90 per cent reliant on imports for 32 of 34 of critical minerals. Minerals will often be imported, then exported for recycling, only to be imported again.

### **Keeping materials in circulation adds value and productivity**

- The circular economy prioritises keeping resources in use at their highest value, rather than losing that value by letting resources become ‘waste’.
- Given its reliance on imported goods and raw materials, the UK faces a reduced downside from shifting away from the linear, resource-extractive model, where economic activity is focused overseas. Meanwhile, a wealth of material is building up in UK products and infrastructure.
- By preserving product value, circular models can support additional jobs in the UK. PwC’s analysis has found that matching international best practice in four sectors can add 0.4 per cent to labour productivity (gross value added per job). This is a bigger boost than from many [emerging technologies](#).

### **The circular economy creates opportunities by building on UK strengths**

- Circular business models often turn goods into services, through leasing, sharing, repair and resale. This is an opportunity to grow local value.
- Nearly four fifths of the UK’s GDP comes from services. This strength could make the country an ideal home for circular businesses, given the large base of service providers needed in logistics, tech and finance. The relatively dense population also helps with these logistics.
- Analysis from WRAP has found that businesses in the UK may be [“leaving money on the table”](#) by not using circular models to extract more value from products, and that supportive consumer behaviour is growing. As well as cost savings, circularity leads to new revenue streams and new customers.

### **Circular business is already working in England, but it needs support**

- England is not starting from scratch on circularity. Green Alliance’s report [In the loop](#) shows how circular business is already creating high quality jobs in major businesses such as Screwfix and Ocado.
- These jobs are especially needed in areas that have faced industrial decline, with companies like JCB and Caterpillar offering apprenticeships and helping to move their existing skilled workers into remanufacturing roles.
- Too often linear business models enjoy unfair economic advantage as the serious damage they cause to the environment, as well as people’s lives, is not factored into their costs. For instance, unnecessary demolition occurs because new build is favoured in the tax system over retrofitting existing buildings; the former benefits from zero rate VAT, while the latter is usually charged 20 per cent VAT.

### **The government can bring in private investment by setting a clear direction**

- Many circular economy activities are not very capital intensive, and England has access to deep and varied pools of capital.

- By reducing investment risk with clear policy direction, the government can create an attractive opportunity for investors to fund the growth and productivity benefits of the circular economy.

### **Five tests for England's Circular Economy Growth Plan:**

- 1. Does it rebalance the investment environment to enable circular businesses to thrive?**
- 2. Does it identify how to account for the financial risks of linear models and make the economy more resilient to supply chain disruption?**
- 3. Does it set a long term goal to bring UK resource use within planetary boundaries?**
- 4. Does it establish a robust framework for key sectors?**
- 5. Is the whole of government behind the strategy for the long term?**

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**This briefing was produced by Green Alliance as part of our work programme for our Circular Economy Task Force. Members include:**



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**For more information, contact:**

Libby Peake, senior fellow and head of resources policy, Green Alliance  
[lpeake@green-alliance.org.uk](mailto:lpeake@green-alliance.org.uk)