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THE CROSSROADS OF GEOPOLITICS

THE INTERSECTION OF SECURITY AND ECONOMIC INTERESTS –
POLICYMAKING IN A MORE COMPLEX AND UNCERTAIN WORLD

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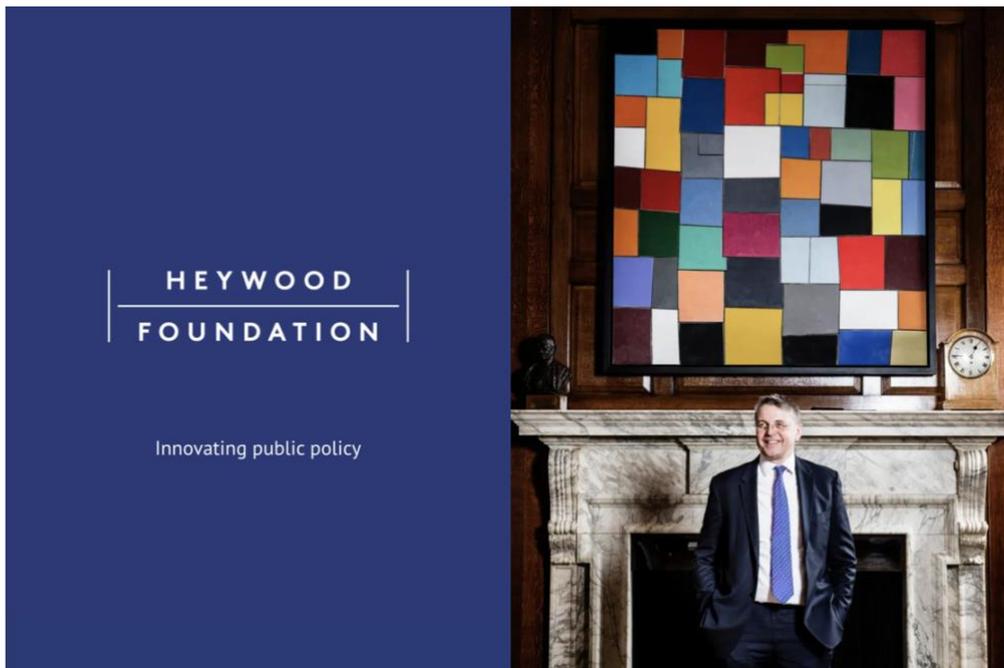
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Blavatnik School of Government, University of Oxford

The Heywood Fellowship



The Heywood Fellowship was established in memory of Jeremy Heywood of Whitehall, UK Cabinet Secretary 2012 – 2018, to create space to consider a complex policymaking challenge of the day. It is unique in that it is focused on “how” policy is made, rather than “what” the policy itself should be in a given area. It is a collaboration between the Heywood Foundation, the Blavatnik School of Government, Hertford College at the University of Oxford, and the Civil Service. This year it has also been supported by the Economic and Social Research Council (ESRC).

The Heywood Foundation was set up in the memory of Jeremy Heywood to promote innovation and diversity within the public sector, and to support charitable causes, in particular the promotion of diversity and innovation within the civil service and broader public service in the UK.

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Tom Kelsey was the ESRC Policy and Research Fellow within the Heywood team. He completed his PhD at King's College London on industrial strategy in post-war Britain and worked on tech policy in the UK Civil Service. He is presently the Humanities and Public Policy Officer for the University of Oxford.

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Foreword

In an era of renewed statecraft, all countries are going to need to get much smarter at using every lever they have in an integrated way in pursuit of prosperity, peace and public trust.

I have always believed in the problem-solving power of policymaking. So it has been a privilege to spend the last year as Heywood Fellow, established in memory of the greatest civil servant policy problem-solver of our generation. We have looked at what I think is *the* systemic policymaking challenge of our time: how we stay ahead of the global and geopolitical trends that are generating persistent complexity and uncertainty, that are fusing economic and security interests as never before, and that are ushering in a new era of statecraft with profound challenges for both policy and policymaking.

How policy shifts and settles as a result, how we capture intersecting economic and security interests coherently, and how we reflect the reality of new global dynamics, all while still protecting the principles that make us distinct as democracies will be critical to determining future peace, prosperity and public trust. Our underlying premise for the Fellowship is that especially when policy is in flux, as it is now, the process of policymaking materially matters; indeed there is dividend to be found in good outcomes from good inputs.

The prompt for me taking on the Fellowship was the conversations I was having with counterparts in other countries. We all shared a sense that our systems were innovating, often in interesting ways, but more systematically we were not set up for such complex statecraft or strategic uncertainty. Nor did we have the time to consider how our policymaking processes needed to change if we were to stay ahead of the curve in providing the very best advice to our elected decision-makers.

The Fellowship has given me the space to do that. I hope therefore this report, in focusing on the "how" of policymaking, we can add something extra to the wider debate on "what" policy should be. I want to thank all who have supported the Fellowship: the Heywood Foundation - and Suzanne Heywood in particular, the Blavatnik School of Government and Hertford College at the University of Oxford, the Economic and Social Research Council and the Civil Service. Additional thanks goes to those who have informally partnered with us or provided more private support. I especially want to thank Amina, Jack and Tom as the other brilliant members of the Fellowship team, without whom this report would not be possible.

I finish the Fellowship more convinced of the scale of the challenges. The complex alignment of global integration, geopolitical competition and strategic uncertainty is here to stay: economics is now a core component to statecraft in a way that was unthinkable at the start of the century, driving the most significant shift in economic orthodoxy and the security architecture in decades. Structurally and psychologically, policy is traditionally approached around economic and security interests as distinct domains. These trends require much more integrated approaches and will demand long-term trade offs that democracies find it hard to make. Yet the cultural differences between domains are deep-seated, short-term incentives are strong, and too often institutional arrangements reinforce rather than react against them.

However, I also finish the Fellowship more optimistic than at the start about the ability of our policymaking to make the step change it needs to. The common threads through the year have been the good ideas, good innovations and above all goodwill of everyone we met. It has not been possible in this report to do justice to all of the important and interesting perspectives we heard and best practice that we saw, but it is richer for them. We need to be clear-eyed about the risks of bad policymaking getting it wrong. However, in an age where there are no easy answers to productivity and prosperity, and where there is increasing instability and insecurity,

we should be confident too of the upside opportunity for good policymaking to get it right, to deliver on that dividend with decisions that don't resort to the zero sum.

What we have tried to do with the Fellowship is work through how we can harness this goodwill so that the examples of excellence are embedded and pockets of best practice become systematic. As well as engagement to secure the perspective of practitioners, we have also had the time through our historical research to look at what past precedent can tell us for the present, I hope offering a fresh assessment of post-war industrial policy and a new insight into inter-war economic statecraft policy. We have also embraced being policy practitioners in an academic environment – it is not possible to do in a few months what takes academics many years so we have looked to combine the best of academic analysis with practitioners' perspectives, including our own.

Tempting as it may have been to say it, I don't think the answer is to argue for a fundamental change in culture. It would be a hiding to nothing in any case. But there are good reasons why there are distinct differences across domains, such diversity is good for policymaking and the examples of excellence showcased in this report have come from within the cultures we have. Nor do I think the answer is a single big institutional idea.

Rather, what we have tried to do is look at how we foster a wider culture where integrated and innovative policymaking is instinctive, and critically, ask what practical and pragmatic steps across all aspects of policymaking are needed to get there. This approach may reflect the unrecovered bureaucrat in me, but I hope also reflects the reality of what needs to be done. An agenda of this kind is no less important for it: in an era of renewed statecraft, all countries are going to need to get much smarter at using every lever they have, and those who do that best will be the ones who succeed most.

While we have resisted the urge to identify one single shift, there are three threads that I believe emerge as the most prominent, and which require the most significant mindset shifts for policymakers.

First, our policymaking needs to be much more open. The risk with a report principally on process is that it looks inwards rather than outwards, but my most important take-away from the Fellowship has been exactly the reverse. Perhaps the most illuminating part of the year has been understanding much more how the geopolitical dynamics that are increasingly dominating Summit and Cabinet tables are doing the same in the boardroom. As someone who grew up where "step back" was the presumption, it has been fascinating to see not so much a call for government to "step in" (although there has been some of that), but more to "step alongside" as governments and business navigate these challenges together. This will require a significant shift in the policymaking process, with a responsibility on policymakers to bring business in earlier and more openly, and on business to see their responsibilities in that context. This is the premise behind our recommendation to consider the case for a National Economic Security Centre.

Second, we need to back the potential of technology to transform policymaking. In saying this, there is the inevitable risk of leaping on a bandwagon. However, alongside the Fellowship I spent part of the last year as one of the Prime Minister's Representatives for the 'AI Safety Summit', and while I don't claim to have become an expert, I saw how artificial intelligence is being applied to so many areas including policy delivery but less so to policy design and development. It is already evident that this technology will transform the ability of policymakers to synthesise information, facilitate insight from the full spectrum of perspectives and so provide a common platform to work from, which should be a game-changer. The challenge and indeed opportunity for us is therefore to shape how technology reshapes our policymaking processes. One of our recommendations is to consider the case for a "Joint Analysis and Assessment Office" to ensure complex policy choices are underpinned by the best insight possible, and a key mandate for it should be accelerating the application of AI to do this.

Third, while it sounds glib to say it, policymaking is about people – those who practice it and ultimately those whose lives it attempts to improve. Our optimism at the end of the Fellowship stems from the energy and

enthusiasm we found all through the year. But the structural incentives to reward risk-taking and reaching across boundaries are nowhere near strong enough. Our recommendation to establish an economic security cadre, building a pipeline of people equipped to conduct complex statecraft, aims to address that.

The obvious omission from those three threads is a comment on structures. This is deliberate, because while they do need strengthening, they are a necessary but by no means sufficient condition. Acting on openness, embracing technology and arming our people to succeed are what will make a decisive difference. The critical component with respect to structures, which can be achieved in lots of ways, is clear accountability for sticking with and consistently championing the step change in policymaking capability that is needed. In that respect, the tone set from the top is essential.

In putting our conclusions together this report tries to stick to its brief, both to the “how” of process and not the “what” of policy, and to a focus on the intersection of economics, security, international and domestic interests. But particularly given we have been doing our work so soon after Covid-19, throughout the year we have found interesting implications for policymaking in other contexts, and so some of where we have ended up may be of wider relevance. We have also focused on the UK, but have invested time in looking at what others are doing. We are all finding these issues hard – indeed no one country stood out as being better than others and the UK stands up well alongside others with respect to its processes. While our conclusions are aimed at the UK, again they may be of wider relevance.

Finally, a more personal word. It has been both personally and professionally refreshing to spend this year as Heywood Fellow. It has been really rewarding to have the space to think and talk to others in a way that isn't possible in the demands of a “day” job. As with any profession, sometimes there is no substitute for practitioners stepping out and thinking about how we do what we do better. As policy professionals we don't do enough of that and need to do more. I hope the Fellowship gives others the opportunity to do so. In its own way I hope this report from this year's Fellowship will help policymaking deliver on its problem-solving imperative. But above all I hope it does justice to Jeremy's memory.

Jonathan Black
Heywood Fellow

Headline reflections

There needs to be a step change in *how* public policy is made to stay ahead of an increasingly complex and uncertain global context that is challenging *what* policy should be where economic and security interests are increasingly intertwined.

The Fellowship's conclusions are informed by the insight from its analysis, assessment and engagement:

1. **Policymaking dividend.** The process of policymaking materially matters, especially when policy itself is in flux and there are no fixed formulas to follow.
2. **Issue for all.** All countries are grappling with the policymaking implications of global trends and geopolitics, all are innovating, but none has yet made the step change necessary for its policymaking to keep ahead of these trends. No country stands out; the UK stands up well with others.
3. **Incentivising integration.** There is goodwill amongst policymakers for change, but cultural differences across economic and security domains are deep-seated – we need to accept that, adjust for it, and incentivise instinctively integrated approaches in every aspect.
4. **Systematising excellence, encouraging innovation.** There is good practice in policymaking, but this often overly relies on the energy and entrepreneurialism of individuals and ad hoc arrangements – we need to systematise cross-system capability for policymaking excellence, reward risk-taking, and have the right systems and structures to support it.
5. **Long-term agenda.** The global dynamics driving increased complexity and uncertainty will persist – we need to adapt policymaking for a new area of statecraft, with an agenda that should mark a step change for the long-term. History provides a good guide.
6. **Strengthening insight.** The technological transformation underpinning global dynamics can also be a critical enabler of excellence in policymaking – we need to address current asymmetries in information, and embrace how technology can assist data-driven policymaking excellence.
7. **Balancing risk and reward.** Underlying cultural differences are divergent conceptions of risk and reward across the economic and security domains – we need new policymaking paradigms to capture these coherently. Academia can help with the intellectual underpinning.
8. **Reimagining relationship with business.** The global dynamics imply a more complex interface between the state and the market. While this poses questions for policy, as important is the need to reflect this in policymaking, with a reimagining of the relationship between governments and business
9. **Evolving alliances.** These dynamics also imply more complex interlinkages between states – we need to reflect this in policymaking too, and address how countries can act as both economic competitors and strategic collaborators on the same issues at the same time.
10. **Learning lessons.** With so much complexity and uncertainty, we need to make sure policymaking is better at learning from best practice and past precedent.

Headline recommendations

The Fellowship's conclusions aim to capture the most important interventions that could be made to improve policymaking at the intersection, but do not claim to be comprehensive.

Systems - embedding best practice and a long-term perspective in policymaking

1. Establish playbook for economic security to codify principles and practice in policymaking process
2. Develop doctrine for economic statecraft to define procedures for deployment

People - recalibrating what excellence looks like for context of persistent complexity and uncertainty

3. Put stronger emphasis on expertise and experience for cross-domain problem-solving, including in expectations of leadership
4. Establish an economic security cadre with incentives for policymakers to develop their career across and at intersection of economic and security domains
5. Embed common skills and standards in economic, security and international policy for all policymakers at entry and early career to facilitate effective cross-domain collaboration

Information and Insight - addressing asymmetries and embracing technology for data-driven policymaking

6. Consider case for a 'Joint Analysis and Assessment Centre' at centre to drive integration and innovation, including with a stronger foresight and futures function
7. Conduct review of information access and availability to address cross-system barriers to information sharing
8. Accelerate application of Artificial Intelligence to enable integrated analysis and assessment
9. Establish a network of 'Chief Historians' to ensure past precedent in policymaking better informs the present

International - reimagining partnerships for strategic collaboration and economic competition

10. Embed international interests into every relevant area of domestic policymaking, underpinned by sufficient capability
11. Develop stronger systems for allied coordination on economic security and statecraft

Business - reimagining partnership for a more complex interface between market and state

12. Develop mechanisms for more systematic sharing of market insight and security assessment between government and business
13. Consider case for a 'National Economic Security Centre' as one-stop-shop for supporting emerging and sensitive technology businesses with innovation, investment and export decisions

Structures - strengthening centre to drive policy coherence and step change in policymaking capability

14. Consider case for 'National Strategy Council' with a long-term remit for decision-making on cross-cutting issues or 'National Economic Council' to address the imbalance in the formality of decision-making across security and economic domains
15. Assign clear accountability for implementation of agenda to strengthen policymaking capability

Introduction

While the re-emergence of geopolitical competition now dominates the global policy debate, and drives some of the most dynamic areas of policy development, less attention is being paid to the implications of this new context for the process of how policy is made. It is this that has inspired the focus of this Heywood Fellowship: how policymaking at the intersection of economic and security interests needs to change to keep ahead geopolitical and wider global trends. This report sets out the conclusions of the Fellowship's inquiry.

It takes as its starting point that, driven by these trends, we are entering into a period of increased complexity and uncertainty with profound implications for policy and policymaking, where economic and security, international and domestic interests are increasingly intertwined and will become more so. The **Context** section summarises why, and what this means for policy.

The **Insight** section establishes the principal findings of the Fellowship's inquiry, including why a more systematic strategy than hitherto attempted is needed across all governments to stay ahead of these trends.

The **Conclusions** section proposes pragmatic and practical recommendations arising from these insights. Most aim to be uncontroversial and could be taken forward straightforwardly; a small number are more substantive and have wider policy implications. They were all tested as part of the Fellowship's engagement and reflect feedback.

1,000+

Individuals and organisations engaged
by Fellowship as part of its inquiry

Approach

Given its relatively short time period, the Fellowship has not sought to replicate what a long-term academic study would do. Rather it seeks to link academic research and the perspective of practitioners, including of the Fellowship team, to draw useful insight. The assumptions underpinning its inquiry are set out in Box 1.

The Fellowship has been structured around two strands: a historical analysis of key periods of relevant policymaking, and structured engagement with policymakers, business leaders and experts in the UK and internationally.

Its historical analysis has focused on two periods: **British economic statecraft and sanctions in the inter-war period** and **British industrial policy in the post-war period**. These were chosen principally because they occurred during periods of geopolitical tension. A summary of the research is set out between the Context and Insight sections, and then in more detail in two separate publications - *'Between War and Words: can economic deterrence help uphold international stability?'* and *'When Missions Fail: lessons in 'high technology' from post-war Britain'* that can be found as supplements to this report.

In total, the Fellowship formally engaged with over 1,000 individuals and organisations, and more in an informal capacity. It did this through:

- **In-depth interviews** with senior UK civil servants, business leaders, academics and other experts. This included several roundtables and externally hosted events. The Fellowship also spoke privately with a number of Ministers and former Ministers.
- **Structured surveys**, in partnership with YouGov, for a first-of-its-kind poll to achieve a sizable sample of perspectives across 200 civil servants and 600 business leaders. While interviews were focused on senior officials, to ensure a wide spectrum of perspectives 90% of survey participants were junior officials.

While the focus of the Fellowship's inquiry is on the UK, a core part of its inquiry was also **international comparison**. The Fellowship concentrated on the US, Canada, Japan, Australia and Singapore, as well as to a lesser extent Europe. So while the conclusions are UK specific, the report's findings reflect an assessment from across these countries.

The Fellowship has published a summary of its overall engagement and results of the survey in a supplementary paper titled '*The Heywood Fellowship: Engagement Summary Report*'. This also contains more detail about our methods, who responded to the survey, and the questions we asked.

Assessment framework

In order to provide a coherent approach across its inquiry, the Fellowship sought to use a consistent assessment framework reflecting **seven key drivers of excellent policymaking** at the intersection of economic, security, international and domestic interests: (i) **culture**, (ii) capability of **people**, (iii) use of **information and insight**, (iv) engagement with **business**, (v) collaboration with other **countries**, (iv) **systems** and (vii) **structures**. These have been used to frame the Fellowship's approach to its engagement and research, and the structure of its insights and conclusions.

Wider application

The report and its recommendations are focused on policymaking at the intersection of economic and security interests. That said, in some respects they may have wider application for policymaking in complexity and uncertainty more generally, including for crisis situations with cross-domain implications such as Covid-19. Where this is the case, the report seeks to note this.

Box 1: Assumptions

Broad definition of national security and economic prosperity, as per UK's Integrated Review Refresh of 13 March 2023.

Democratic values taken as underlying principles.

UK-focused in its insights and conclusions, but with generic applicability, especially for allies, where possible.

Practical focus, drawing together academic analysis and practitioner perspective. Given its relatively short duration, the Fellowship has not sought to replicate what a long-term academic study could achieve.

Necessarily selective in areas it has focused on.

Policy agnostic with a focus on process best practice regardless of and resilient to a specific issue. The Fellowship has explicitly not sought to assess the efficacy of policy itself, or the appropriateness of legislation and resources underpinning it as this is beyond its scope.

Rigorous approach with respect to ethics and integrity, conducting its inquiry in accordance with the University of Oxford's policies and procedure. The project was reviewed and approved by the University of Oxford's Blavatnik School of Government Research Ethics Committee (DREC) in accordance with the procedure laid down by the University for Ethical Approval of research involving Human Participants.

Context - the implications for policy

We are entering a period of increased complexity and uncertainty, driven by global economic integration, geopolitical competition and global trends. These trends have profound implications for policy, ushering in a new era of statecraft, with economic and security, international and domestic interests increasingly intertwined.

That security and economic interests intersect is not new. Economic power and technological advantage have always been key to determining the global security order, and the critical factor when that order is in transition or tension.

However, against a backdrop of increasingly intense geopolitical competition that will shape the future of the international order, these interests are becoming increasingly intertwined and will become more so. This is challenging the fundamentals of both policy and policymaking, with many of the most systemic policy challenges sitting at this nexus.

Factors driving complexity and uncertainty

Three factors are driving this increasing complexity, differentiating today from previous periods of geopolitical competition:

- the level of global economic interconnectedness, particularly between geopolitical rivals, which is unprecedented by historical standards.
- the nature of geopolitical competition, which has decisively moved out of its post Cold War phase, posing significant challenges for the underlying global order, and which is particularly playing out in that integrated economic arena.

- the importance of wider global trends – demographic, climate and above all technological change, which add to the intensity of the geopolitics, and in themselves add to the complexity of the intersection of economic and security interests.

Global economic integration and geopolitical competition have not previously aligned in the way they are now. During the Cold War, the global economy was significantly less integrated than it is today: global trade as a share of global GDP is twice what it was then (see Figure 1). The principal protagonists are even more integrated: the USA and China are major trading partners, indeed each others' third largest, in a way that the USA and Soviet Union were not.

~1% → >12%

Trade between US and Soviet Union during 1970s and US and China today as share of their respective total trade¹

¹ Soviet Union: Country Study, Library of Congress, 1989, "Trade between the United States and the Soviet Union averaged about 1 percent of total trade for both countries through the 1970s and 1980s"; US International Trade in Goods and Services 2022, US Bureau of Economic Analysis, April 2023; Total value of

major countries of import and export commodities 2022; General Administration of Customs of the People's Republic of China

Global economic integration and sanctions prevalence over time

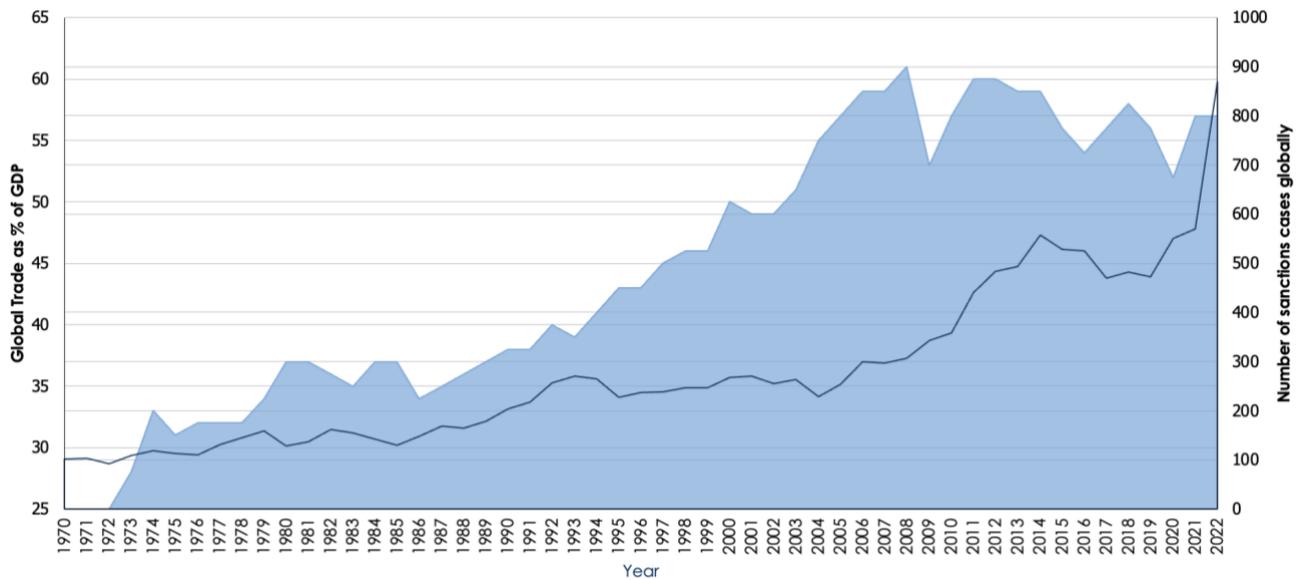


Figure 1: This chart shows the evolution of the integration of the global economy, as measured by global trade as a share of global GDP (the 'Trade Openness Index'); and the evolution of economic statecraft, as measured by the number of economic sanctions imposed globally in the 'Global Sanctions Data Base' dataset, which adjusts for those existing, new or discontinued at a given time. The chart shows a divergence between the two following the end of the Cold War during the sustained period of post-war trade liberalisation, where sanctions use did not proportionately increase much during this period. Since the 2008 financial crisis trade liberalisation and sanctions use has seen a proportionally sharp convergence, as trade growth plateaued and sanctions use increased, increasing still further since the mid-2010s. Source: World Bank, OECD, Global Sanctions Data Base - Release 3, 2023 (C. Syropoulos, G. Felbermayr, Kirilakha, A., E. Yalcin, and Y.V. Yotov)

Alongside this complex alignment of integration and competition, there is also less strategic certainty. The global order is being challenged by geopolitical competition more than at any point since the Second World War. In a more multi-polar world, emerging markets are powers in their own right, not proxies of superpowers. Non-state actors are much more significant. Sources of instability are increasingly significant, arising from both states and these non-state actors, but also wider global trends.

Alongside these evolving dynamics, climate, demographic and technological change provide new arenas for geopolitical competition as well as imperatives for global cooperation. In particular, technologies that will be principal drivers of productivity-enhancing growth are also primary sources of security risk, and the extent to which technology is transforming all aspects of society makes traditional concepts such as dual-use for determining policy much harder to define.

There is uncertainty about how each of these factors driving complexity will evolve. What is the path of

future integration, and how significant will de- and re-globalisation be? Will the chronic challenges of geopolitical competition spillover into an acute security crisis? When will these wider global trends reach their tipping point, if at all? While the answers to these questions will be critical for future peace and prosperity, and the policy choices that will determine it, this uncertainty alone increases the complexity for the policymaking process.

Despite these uncertainties today's geopolitical competition is playing out within a global economy that continues to be more integrated than at any point in the past. The extent to which that continues to be the case is a critical variable. Research considered by the Fellowship showed that, while the subject of intensive debate, there is not, at least yet, evidence for significant "deglobalisation". While the level of global trade integration has plateaued since the financial crisis, even with rising geopolitical trade tensions and the impact of Covid-19, it still remains around its peak.

However, within this, there is important evidence, reinforced by the Fellowship's own engagement with business, of significant "re-globalisation" with an acceleration in the reconfiguration of goods supply chains, driven in part but not exclusively by geopolitical considerations. This is likely to have contributed to the slowing of the rate of global economic integration. But this needs to be balanced with other forces, including integration in services, data and intangibles all of which continue to accelerate.² Most of those the Fellowship engaged with, business leaders, policymakers and experts, expected this trend to continue if not increase. This nuanced pattern of an evolving globalisation provides the context for government and business decision-making.

This evolving shape of global interconnectedness is reshaping the role of economic vectors in geopolitical competition: economic levers are core to statecraft in a way that was not foreseen in the first wave of globalisation. While economic statecraft played an important role in the Cold War, the limited level of economic integration between Western and Eastern blocs inevitably limited its potential, with direct competition principally playing out in the security sphere. In this renewed period of geopolitical competition, the level of interconnectedness provides more scope for the use of economic tools as a lever of security policy.

However, it also limits it: it increases spillovers including on those using them and in a more multi-polar global economy it constrains their use unilaterally. policymaking is going to need to work through these dynamics.

Whether the level of interconnectedness acts as a hindrance or help to global stability will be critical in determining future peace and prosperity. Will the level of integration and mutual interconnectedness arising from it act as a centripetal force? Or will the centrifugal forces of competition for technological advantage outweigh those? History would suggest neither proposition is as simple as predecessors imagined, with the First World War One occurring at a height of globalisation and a confidence in its peacemaking force; the second occurring at a peak of deglobalisation and a hope that autarky would protect from its worst ravages. Careful policymaking will be a critical factor in determining the outcome.

²For example:

- Global flows: The ties that bind in an interconnected world, McKinsey Global Institute Discussion Paper, November 2022. "Economic and political turbulence have prompted speculation that the world is already deglobalizing. But the evidence suggests that global integration is here to stay, albeit with nuance."
- Deglobalisation? The reorganisation of global value chains in a changing world, OECD Trade Policy Paper, April 2023. "There was no general trend towards deglobalisation after the Great Financial Crisis of 2008-2009 and that the level of the international fragmentation of production remained high at the onset of the COVID-19 pandemic."

Geopolitical and wider global trends driving complexity and uncertainty



Public and political debate to determine new paradigms

Policy in flux

Against this backdrop, the increasing intertwining of economic and security interests will have far-reaching implications across the full spectrum of policy. Traditional paradigms are insufficient to handle the reality of persistent complexity and uncertainty, and are being challenged. The Fellowship's engagement revealed an expectation that established policy is likely to shift significantly, and the current innovation phase will intensify before a 'new equilibrium' emerges.

Already central aspects of economic and security policy have been put into flux. The core of traditionally domestic economic policy is going through its most significant reshaping in four decades as countries attempt to price in geopolitical risk along with shifting domestic dynamics and the climate transition into industrial and innovation policy (for example the Inflation Reduction and CHIPS Acts in the USA, the "Green Industrial Plan" in the EU, and the "Made in China 2025" in China). Meanwhile, economic instruments were the first response to the biggest security crisis in Europe in eight decades, with the most significant package of economic sanctions in modern time imposed on Russia following its invasion of Ukraine.

Alongside this, many of the most systemic policy challenges - in particular those central to climate, demographic and technological change - sit at and will be shaped by the nexus of economic and security interests. Each will fundamentally reshape established interpretations of these interests and will

be critical determinants of future peace and prosperity. This has been recognised in the US National Security Strategy and the UK Integrated Review.³ Policy choices relating to all these issues will become more complicated and contested.

"People all over the world are struggling to cope with the effects of shared challenges that cross borders – whether it is climate change, food insecurity, communicable diseases, terrorism, energy shortages, or inflation. These shared challenges are not marginal issues that are secondary to geopolitics. They are at the very core of national and international security and must be treated as such." - US National Security Strategy

Geopolitical dynamics will also prompt choices for underlying policy posture and the size of the state, adding to what wider global trends are already doing. Alongside the reshaping of microeconomic policy, these dynamics will have important implications for macroeconomic and monetary policy. Policymakers with responsibility for promoting stability will need to operate through more persistent uncertainty and its implications for inflation. Meanwhile, geopolitical trends will place significant pressure on fiscal dynamics from increased security spending, expanded industrial policy and the implications for tax revenues of trade frictions. Unlike during the last geopolitical transition after the Cold War there will be no equivalent of "peace" dividend in the coming years. Rather these security pressures will need to be considered by policymakers

³ US National Security Strategy, October 2022; UK Integrated Review Refresh, March 2023

alongside increasing social spending pressures and against a backdrop of more difficult debt dynamics after Covid and the financial crisis.

70%

Proportion of businesses who expect steps taken to address geopolitical risk to increase their costs, according to Fellowship survey

1%

Potential percentage point long-term impact of geopolitical trends on eurozone inflation, according to European Central Bank⁴

25%

Potential percentage point increase in UK net debt by 2035, according to Office for Budget Responsibility geopolitical stress test⁵

A new policy equilibrium?

As policy on these issues evolves, there is an important political and policy debate about what the new economic and security policy equilibrium should be that can best deliver peace, prosperity and public trust. The “what” of that new equilibrium is beyond the scope of the Fellowship’s focus on the “how” policymaking, so this report does not attempt to draw conclusions on it. However, a number of factors have featured in its inquiry relevant to it.

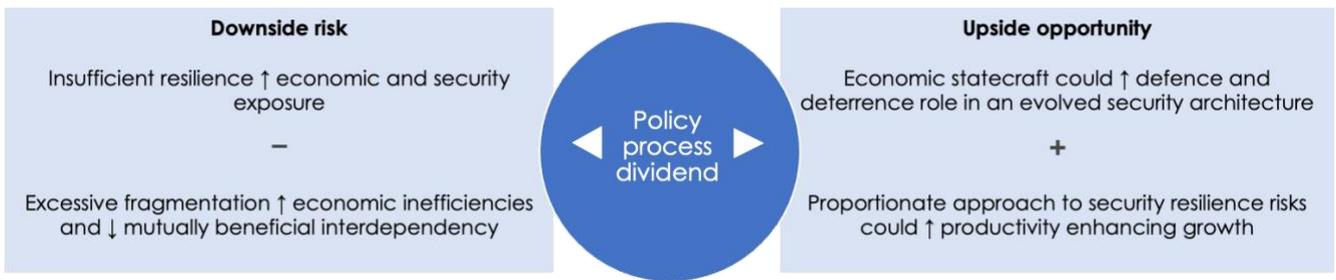
The debate is already underway, especially in the economic sphere. The emerging focus on “de-risking” as a concept is a recognition of the inherent complexity of capturing security risk in economic policy in a way that “decoupling” does not. Nevertheless, it also highlights the challenge of doing so and that such concepts only take policy clarity so far: with dual use hard to define, a theoretically narrow focus on potential national security risk from sensitive technology has intellectual coherency, but is complex in practice when technology is transforming so many sectors of the economy. Out of this debate needs to be a new underlying approach to microeconomic policy that captures geopolitical security as well as economic imperatives, but also combines domestic and international policy in a much more substantive way than before.

The debate on security is less developed. That is in part because the new frontier of economic statecraft deployed in response to Russia’s invasion of Ukraine is still in its active development phase. Out of that, however, needs to be an evolved security architecture with a more established role for economic levers. The Fellowship’s research into the role of economic statecraft - published previously - aims to be a contribution to this debate.⁶

⁴ *Friend-shoring global value chains: a model-based assessment*, M Attinasi, L Boeckelmann and B Meunier, in European Central Bank Economic Bulletin 2/2023. “If global value chains fragment along geopolitical lines, the increase in the global level of consumer prices could range between around 5% in the short run and roughly 1% in the long run”, President of European Central Bank, April 2023

⁵ *Fiscal risks and sustainability*, Office for Budget Responsibility, July 2022

⁶ *The Heywood Lecture: the future of economic statecraft - reflecting on the response to Russia’s invasion of Ukraine*, J Black and *Between war and words can economic deference uphold international stability*, J Connolly, Blavatnik School of Government September 2023



As this debate evolves, it needs to be clear-eyed about the choices and rigorous about drawing the right conclusion from the changing context. It is taking place in a context where public and political sentiment that global interconnectedness inexorably advances prosperity and stability has shifted significantly. A new equilibrium will therefore need to recognise the role global integration has played in bringing rising prosperity to advanced and emerging economies, while recognising that it has not delivered rising prosperity to all in advanced economies or the poorest countries. It will need to be hard-headed about the geopolitical context and that global economic integration has not been followed by a reinforcing of the global order and democratic values that some hoped it would. Above all it will need to find a way of protecting the principles of openness that make democracies distinct, while better protecting against risks to resilience, some of which are inherent to such openness.

A strand through this debate is the implications of a more complex interface between the state and the market. Economic statecraft necessarily involves state intervention in the market, particularly in an acute crisis, and indeed business and other market actors acting as agents of the state in its implementation. Economic security raises important questions about how the role of the state should evolve. Where should policy intervene with formal

requirements to act on geopolitical risk? Where should it leave the market to do that itself, but how should policy support them in that? The debate should explicitly address these questions.

A new equilibrium for economic and security policy should not and does not have to be a simple trade off between the two. It needs to be clear about the risks, in particular on the economic downside.⁷ However, incorrectly assessing short and long term risk will lead to suboptimal outcomes for both economic and security interests: as an acute crisis like Covid-19 showed as well as in the context of geopolitical competition, insufficient resilience not only risks excessive dependency but also insufficient flexibility; while excessive fragmentation not only increases economic inefficiency but will reduce mutually advantageous inter-connectedness that could support geopolitical stability.

Indeed, while trade-offs should not be denied, it is not the case that economic and security interests are always in tension, they can reinforce each other. While there are significant downside risks of getting policy wrong, against a backdrop of rising geopolitical competition and stalling productivity growth, there is an upside opportunity from mutually reinforcing policy for both peace and prosperity. The process of policymaking will be critical in identifying what that opportunity is.

⁷ *Geoeconomic Fragmentation and the Future of Multilateralism*, International Monetary Fund, January 2023. "The longer-term cost of trade fragmentation alone could range from 0.2 percent of global output in a limited fragmentation scenario to almost 7 percent in a severe scenario—roughly equivalent to the combined annual output

of Germany and Japan. If technological decoupling is added to the mix, some countries could see losses of up to 12 percent of GDP", IMF Managing Director, January 2023

Summary of Fellowship's historical research

The intersection of economics and security issues in policymaking is not without historical precedent, though awareness and understanding of it is poor. As a core part of its research, the Fellowship reconsidered this history, focusing on two periods where the intersection was thought to be especially intense: the development of economic sanctions in the first half of the 20th Century, and the role of industrial strategy in the post-war period.

Other periods and forms of statecraft could have been picked. For example, trade policy, particularly through import controls, was a crucial part of building a national economy in the immediate post-war period.⁸ While the shifting confidence in the role of free trade as driver of national security in the United States (see Figure 2.2) is a key underlying dynamic for evolving economic security policy.

Figure 2.1: This diagram attempts to show in a simplified way the evolution of global economic integration, geopolitical competition and the use of economic levers for such competition. It is necessarily subjective and simplifying in such a way inevitably misses important nuances. However, what it aims to do is show how the historically unparalleled alignment of economic integration and geopolitical competition, and why the two areas for historical research were chosen.

	Early C20		Inter-war		Cold war	Post-cold war	Now → ?
Integration of global economy	↑ ✓✓		↓ ✓		↔ ✓	↑ ✓✓✓	↔ ✓✓✓
Intensity of geopolitical competition	↑ ✓	World War I	↑ ✓✓	World War II	↔ ✓✓✓	↔ ✓	↑ ✓✓
Use of economic tools for <u>direct</u> geopolitical competition?							
Sanctions	-		✓✓		✓	✓✓	✓✓✓
Trade	✓		✓✓		✓✓	✓	✓✓
Industrial	-		✓		✓✓	✓	✓✓

⁸ George Brennan and Alan S. Milward, Britain's Place in the World: a historical enquiry into import controls 1945-1960

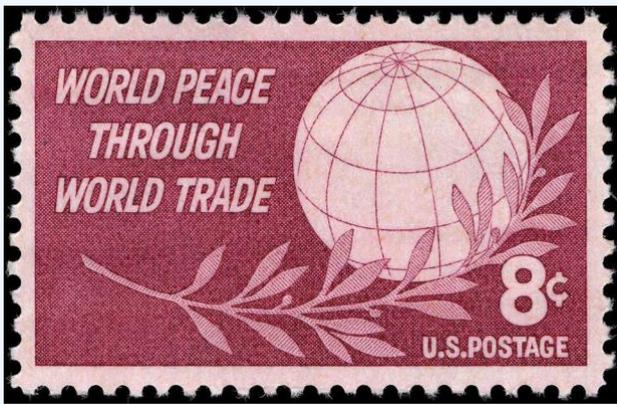


Figure 2.2: United States postage stamp issued in conjunction with the 17th Congress of the International Chamber of Commerce, April 1959.

However, these other periods and forms never quite had the same political salience as those chosen, at least in the British case. The blockade was a core policy of the British state, a crucial form of deterrence, and a central weapon against Germany in both World Wars. Similarly, the use of the state to pioneer next-generation technological leaps, in both armaments and civil technologies, was a deeply embedded strategy in the 1950s and 1960s, and enjoyed cross-party consensus, and impacted the makeup of the state itself. These examples were also picked for their contemporary resonance: sanctions and industrial strategy are self-evidently central to a new era of geo-political competition.

The Fellowship focused its research on the history of the policymaking process, as distinct from the majority of historiography, as a means of illuminating good and bad practices that could inform practitioners today. This research was conducted mainly through literature review, supplemented by new primary research in the British State Papers at the National Archives.

The full breadth of this research is captured in accompanying papers to this report, but there are a number of broader insights that can be drawn from across both cases.

The maturity and integrity of the policymaking process has often determined policy outcomes, for good and ill. The case of sanctions highlights how having a codified policy procedure in place – an understanding of how the Whitehall machine should work – greatly aided policymaking outcomes. The Ministry of Blockade in the Second World War was run on a handbook that emerged from a 15-year long exercise to learn lessons from the First World War (see Figure 2.3). In contrast, the policymaking procedure in 'high technology' in the 1950s and 1960s was poorly designed, leading to ill-considered decisions. There was expert capture within the state, with state engineers having an undue influence on decision-making, and the siloing of crucial information meant that Cabinet ministers never had access to critical information.

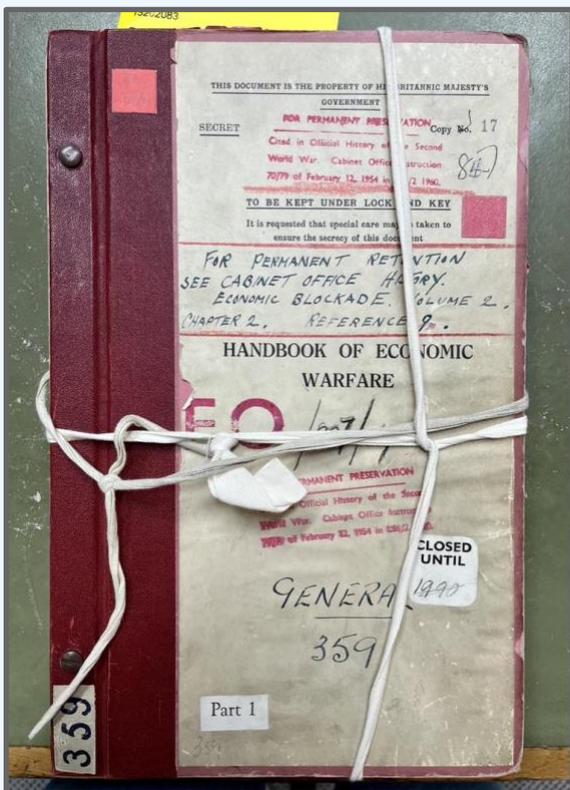


Figure 2.3: The British Handbook of Economic Warfare, 1938, itself the product of a 15-year long inquiry surviving five successive governments of different political persuasions, seeking to integrate the lessons of the First World War's blockade, into the Second's economic warfare on Nazi Germany.

Previous periods have revealed effective approaches for managing contentious policy by separating out the agreement of procedure and capabilities, from the policy which determines their use. The British government was continually at odds with itself over the use of economic sanctions in the first half of the 20th century, but that disagreement did not stop it from developing sophisticated capabilities and procedures ensuring its readiness for the eventuality sanctions were ever decided upon. While the establishment of a new capability or power for Government is never without politics, more effort could be made to model this example today.

The retention of institutional memory is vital to ensure good policymaking, yet in a Cabinet system of government like the UK, ensuring this memory is retained on interdisciplinary and interdepartmental issues is harder to achieve. Committees are often used but few survive changes in government or personnel. Yet examples do exist where the government has successfully built its collective memory and expertise, including the inter-war 'Advisory Committee on Trading & Blockade' (ATB) developed over five successive governments of different persuasions. Moreover, the memory of policy failure in the post-war period, of making supersonic jets and nuclear reactors for which there was not international demand, worked to usher in a more hard headed sense of British technological strength, a healthy scepticism of what the state could achieve, and ultimately worked to improve the quality of policymaking.

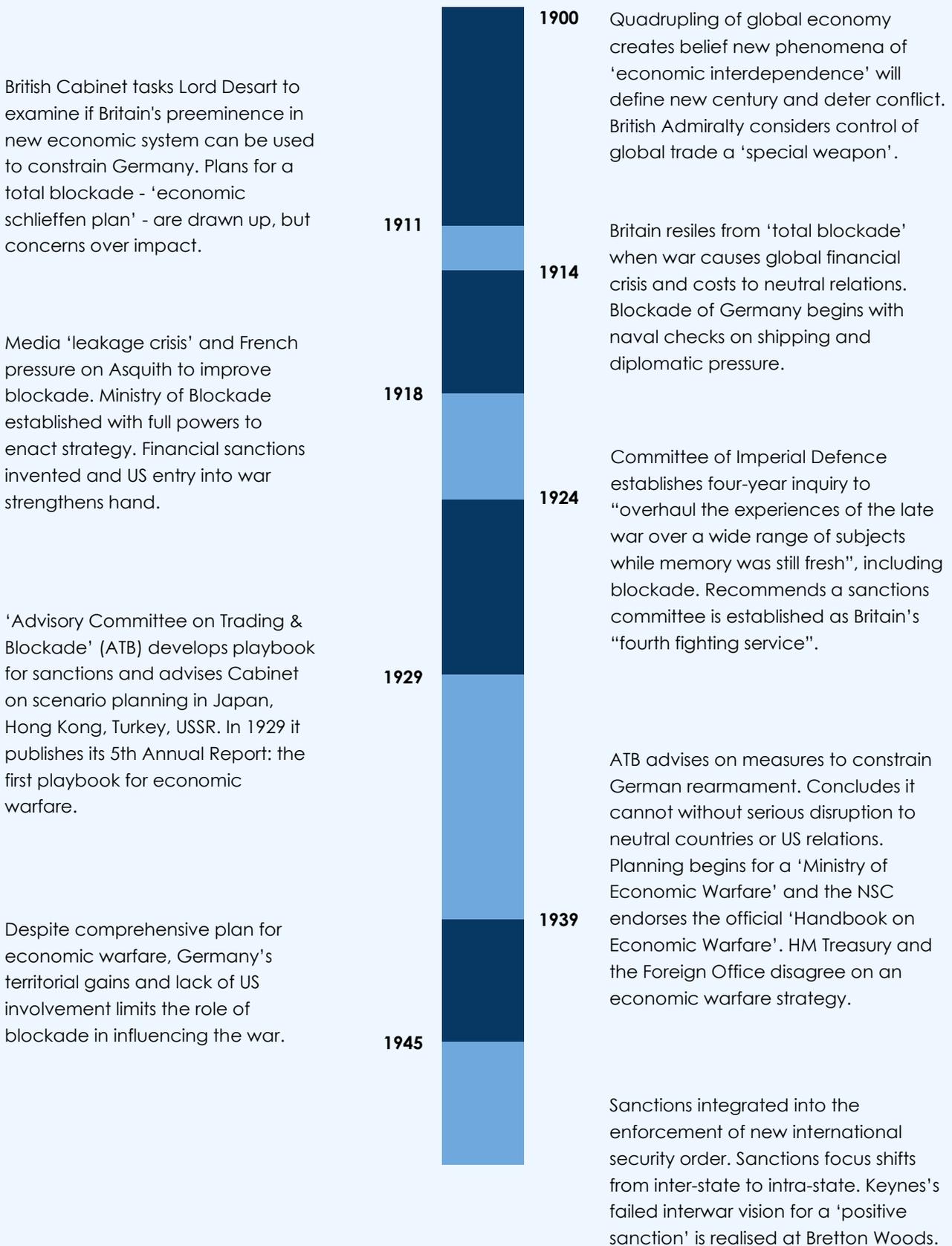
The history of sanctions and industrial strategy both highlight that investing in the use and sources of information secures good outcomes. Economic intelligence played a foundational role in the creation of modern central intelligence machinery, and was not always the poor cousin it is today to political and military considerations. In a heightened period of geopolitical tension and the intersection of security and economic policy, lessons can be learned from the last peak in history which saw

greater investment in integrated analysis and assessment. In the immediate post-war period, the Joint Intelligence Bureau gave Britain real strengths in economic intelligence, allowing it to understand the Soviet threat in great depth.

Another shared lesson from these histories is the importance of seeking a diversity of expertise and opinion within policymaking, including the advice of business. One of the core problems with 'high technology' policy in post-war Britain was expert capture within the state, where the crucial sources of advice were interested parties. Specialist knowledge is important but no single type of expert should have a monopoly on ministerial advice. The Central Policy Review Staff (CPRS), established in 1971, was central in undercutting the internal advocates of Britain's great techno-nationalist schemes, giving the Cabinet a more realistic sense of national technological strength. It was staffed with scientists, economists, generalists and figures from business.

Both cases also make clear the need to work with **international coalitions in order to ensure successful outcomes.** Even when Britain was more dominant during the Second World War it remained that working with partners was central to success, including in sanctions. One of the core lessons of the 1970s was that Britain needed to adjust to its industrial place in the world, working with other countries and international business in creating the technological future.

Figure 2.4: Timeline - Administrative development of British Economic Statecraft



Insights - implications for policymaking

Just as global and geopolitical trends are challenging established policy, so they have profound implications for policymaking. With uncertainty and complexity likely to persist and intensify, it is critical that policymaking keeps pace.

Policymaking is traditionally approached around economics and security as distinct domains. This is reflected in the way governments are organised and accountable, in the skills and experience of their workforces, in their relationships with others and each other, and in their structures and systems for decision-making.

The trends that underpin the Fellowship's inquiry and described in the 'Context' section present a fundamental challenge to this, demanding much more integrated approaches across these domains.

That this poses major questions for the process of policymaking, and that a step change is required to stay ahead of these trends, was consistently reinforced throughout the Fellowship's engagement. Most civil servants felt policymaking was effective at taking both economic and security interests into account, but that its underlying processes were not effective at ensuring they were integrated. Similar dynamics emerged from business with respect to their own decision-making.

In putting together its insights the Fellowship has sought to balance two threads that have emerged through its findings: a deeper confidence than it started out with that policymaking can make the step change required; but also a stronger sense of the challenge in doing so. The Fellowship's historical research has found a wealth of past precedent, while its engagement has found examples of excellence and an energy amongst policymakers. But its inquiry has also identified cultural disincentives and institutional inhibitors across the policymaking process.

No single shift has emerged as decisive to addressing these issues, instead pointing to the need for a broad strategy which promotes excellence across every area. This Insight section attempts to draw emphasis on the different drivers within this overall finding.

Assessment framework: drivers and determinants of policymaking at intersection of economic and security interests



1. Policymaking dividend: the process of policymaking materially matters, especially when policy itself is in flux and there are no fixed formulas to follow.

Good policymaking practice cannot substitute for good policy, but it can help develop policy choices in complexity, and manage uncertainty where there isn't policy clarity. While the policy debate discussed in the 'Context' section evolves, and as new policy paradigms are developed and innovative approaches are experimented with, even more emphasis should be placed on **systems** for excellence in the policymaking process.

This was reflected in the Fellowship's engagement, including in case study discussion on issues that have been at the forefront of the increasingly complex economic and security intersection such as telecoms, investment and sanctions. For each, effectiveness of the process was seen as decisive to an effective outcome when there wasn't an established framework to work within. This was also reflected in discussion with policymakers across countries within the scope of the Fellowship's inquiry, especially in the Indo-Pacific region.

"The process is the product" - senior policymaker, Singapore

This finding has also been reinforced by the Fellowship's historical research, with the effectiveness of the policymaking process material to the outcome of both inter-war economic statecraft and post-war industrial policy. With respect to the former, carefully constructed cross-government systems ensured confidence amongst all departments despite differences between them about the substantive policy choices; while with respect to the latter, shortcomings in process hindered the provision of comprehensive analysis and assessment for collective agreement which might have led to better choices.

2. Issue for all: all countries are grappling with the policymaking implications of global trends and geopolitics, all are innovating, but none has yet made the step change necessary for its policymaking to keep ahead of these trends. No country stands out; the UK stands up well with others.

Most countries across the scope of the Fellowship's inquiry are attempting to reflect the fusing of the security and economic interests in their strategies: the US has published its new National Security Strategy, the UK its Integrated Review Refresh, the EU its Economic Security Strategy, China its comprehensive national security concept, and Japan its National Security Strategy, while the G7 put economic security at the core of its 2023 Summit.

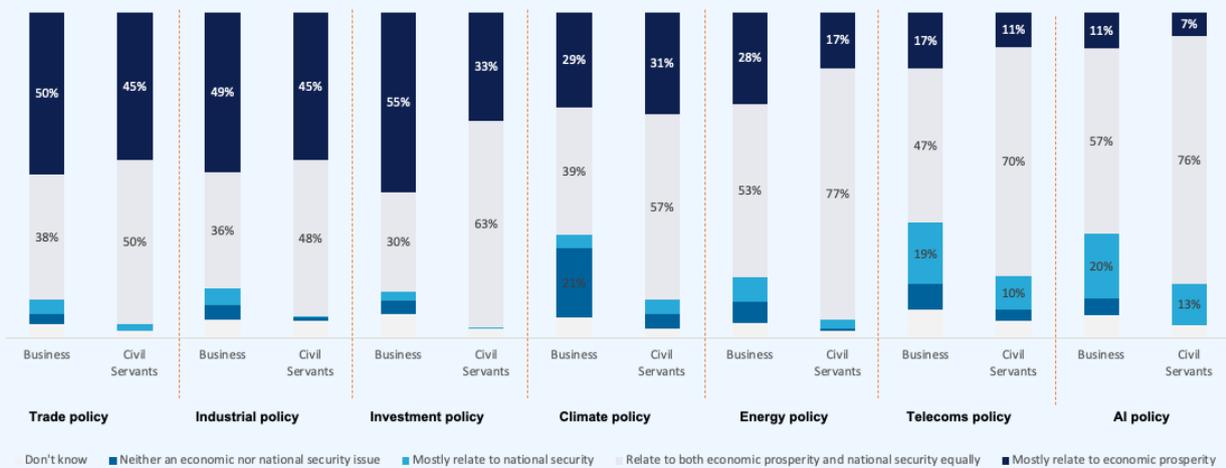
Alongside the increase in policy innovation discussed in the Context section, the Fellowship found extensive examples of innovation in the policymaking process across all the drivers in its assessment framework, in particular on **information** and **structures**. In Australia, reforms to the central assessment functions with the Office for National Intelligence have been seen as successful in supporting better integration of data to support decision-making. These reforms transcend the remit of traditional assessment functions, combining unique intelligence insights with a top-down view on different policy areas in an integrated way. In Singapore, the Centre for Strategic Futures has been seen as effective in creating platforms that are explicitly cross-domain in policymaking and promoting better planning for future trends. Its focus on eroding boundaries between security and economics has been through creating policy process platforms that are explicitly cross-domain. In Japan, new economic security legislation and the restructuring to place economic security as function of the National Security Secretariat at the centre of government has been seen as effective. While not entirely removing silos, it has worked to address this problem through bringing together talented individuals across ministries and allocating responsibility for delivery.

Box 2: Business and civil servant perspective on economic and security interests in different policy issues

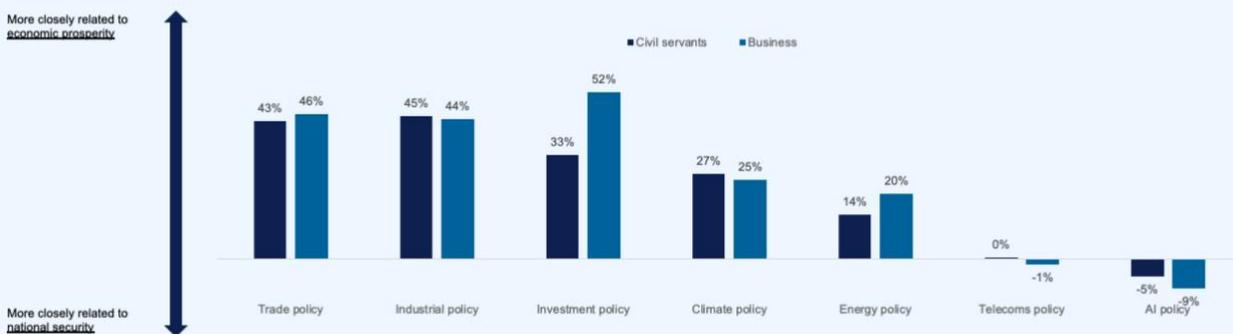
The underlying hypothesis of the Fellowship's inquiry - that we are entering an era of persistent complexity and uncertainty with economic, security, international and domestic interests increasingly intertwined - was recognised throughout its engagement with policymakers, business leaders and experts both in the UK and beyond.

The Fellowship's survey asked a set of structured questions of both civil servants and business leaders whether a policy issue was principally economic or security, or equally about both (see Figure 3.1 and 3.2). Overall, both recognised the increasingly intersectional nature of systemic challenges, and the ways in which issues combine economic and security and domestic and international interests. A sense that issues were equally about both was more pronounced for issues traditionally seen as intersectional such as climate change or energy, or issues that have been significantly impacted by geopolitical dynamics such as telecoms, but it was also reflected in issues seen as traditionally principally about economics and have become more recently geopolitically contested such as industrial and investment policy.

Figure 3.1 and 3.2: Are issues principally economic, security or equally both?



Net score for each audience where the % saying each policy area relates to economic prosperity minus the proportion who say each policy area relates to national security

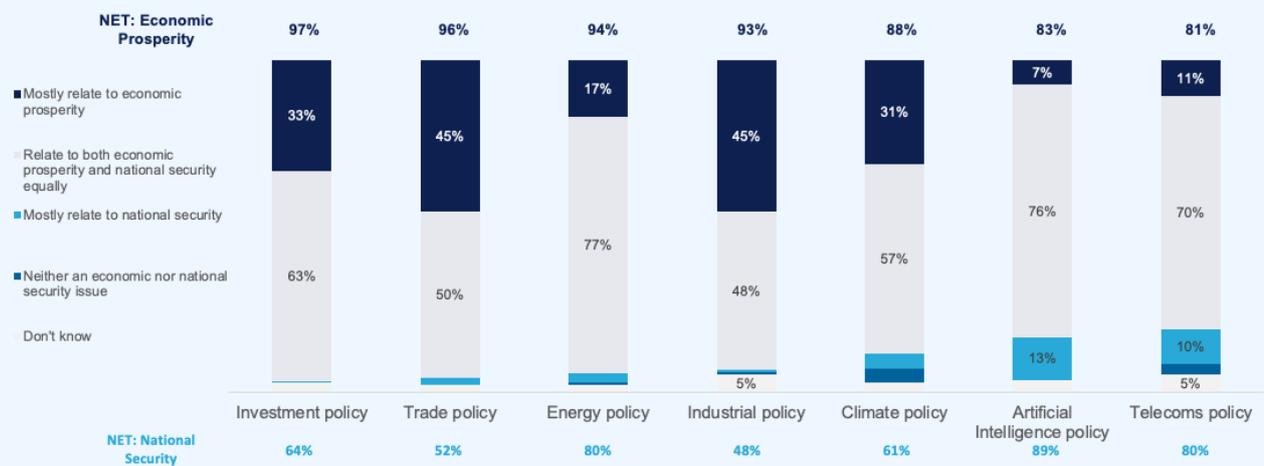


A sense that issues were equally about both was more pronounced amongst civil servants than business. However, even amongst business a significant proportion of issues were seen to be equally about both: while half saw industrial, trade and investment policy to be principally an economic issue, around a third or more saw them to be equally about both; that switched for issues that have been contested such as energy, where half saw them as equally about both. There was limited difference across business sectors and government departments.

The pattern across most issues showed consistency across civil servants and business: both groups were likely to see issues as mostly relating to economics, security or both to a similar degree. Investment policy was the only outlier, where civil servants were far more likely than business to see it as being about both, and business were far more likely than civil servants to see it as being more about economics, a reflection of how it has been at the frontier of evolving economic security policy.

Artificial intelligence (AI) policy was the only issue seen by both civil servants and business as being more about security than economic policy. While beyond the scope of the Fellowship's inquiry, given how critical it will be to future economic prosperity this of potential concern.

Figure 3.3: Are issues principally domestic, international or equally both?



Civil servants were also asked whether issues were principally domestic or international, or both (see Figure 3.3). Again, while traditionally intersectional issues such as climate were most seen to be about both, on an issue traditionally seen as domestic such as industrial policy the same proportion (around 45%) saw it to be equally about both as principally domestic. Trade policy was the only issue where a significant proportion (around a third) saw it to be principally international. The Fellowship found this interesting given how sensitive trade issues can be domestically, and is perhaps a reflection of an ongoing shift given the UK's changed responsibilities on trade following Brexit.

“Australia has been conscious that economics and security can't be separated for a long time. But now has an opportunity to show that we have learned from the past. We got better, but we still need a better system” - expert from Australian think tank

“Singapore's innovation stems from the fact it is small and aware of its own vulnerability, with a good sense of what is happening outside of its borders” - Singapore policymaker

There was a sense from engagement in all countries that they look to others for inspiration, and that others are better than they are at confronting the policymaking challenge. While the Fellowship did not find that one country was significantly more advanced in its policymaking processes than others, some factors such as geographical location (and size) and geopolitical circumstances were relevant (for example, policymaking innovation was relatively more advanced in Indo-Pacific countries). The Fellowship did not find that the United Kingdom lags behind others. Indeed others see the UK as being relatively effective, in particular at internal coordination. As countries continue to innovate, they should strengthen their arrangements for sharing emerging best practice.

However, notwithstanding important examples of innovation, the Fellowship found that no countries thought that they had the complete answer, with all individuals it engaged with identifying shortcomings across all elements of policymaking. Overall, the Fellowship did not find that any country has yet made the scale of the step change necessary in its policymaking for the evolving geopolitical context.

3. Incentivising integration. There is goodwill amongst policymakers for change, but cultural differences across economic and security domains are deep-seated – we need to accept that, adjust for it and incentivise instinctively integrated approaches in every aspect.

Throughout its engagement the Fellowship was struck by a strong desire by policymakers across different domains to collaborate, and a recognition that not only the overall national but their specific interest would be best served by this, even if that may mean changing or even compromising traditional approaches. This was reflected in its interviews with the most senior policymakers, including Permanent Secretaries and Agency Heads or their equivalents, in both the UK and internationally. There was also a consistent recognition that they had responsibilities in this regard to support others to understand the perspective of their organisation.

That said, the Fellowship was also struck by how deep-seated differences in culture are between economic and security domains, and the barriers arising from them. Again this was a consistent feature of its engagement in the UK and internationally, even in countries which others looked to for best practice, such as Singapore. In UK engagement, many policymakers identified low levels of mutual understanding of different cultures and values as a key underlying factor. This manifests itself in practical inhibitors to interdisciplinary collaboration, including the absence of shared lexicons and the use of different tools and terminologies that are not mutually understood. A range of more specific barriers were identified, most frequently siloed structures, information asymmetry, absence of shared language and insufficient interdisciplinary skills in people.

In the UK and in some other countries especially those with similar systems, these cultural differences are reinforced by vertical structures of departmental accountability. Many of those the Fellowship engaged with, especially at a more junior level, identified this as a barrier to collaboration.

The Fellowship is cautious about any agenda that seeks to fundamentally change deep seated cultures. Nor does it accept that a more integrated

approach to policymaking is incompatible with them. Indeed the extensive innovation and examples of good practice found by the Fellowship show it is not. Rather an agenda for strengthening policymaking should accept them and seek to adjust for them. The Fellowship has therefore focused on how the other drivers of policymaking in its framework can do that and provide strong interventions and incentives to facilitate a **culture** where integrated approaches are instinctive.

As set out above, no driver stands out as being sufficient on its own, and the Fellowship therefore stresses the cumulative importance of systematic strategies across all drivers of policymaking. As set out in the charts in Box 3, this was strongly reflected in the survey of civil servants: over 80% of said strengthening effectiveness of each driver was important. That said, in both the quantitative and qualitative elements of the survey and wider engagement strengthening the experience and expertise of **people**, the impact of and insight from **information**, and strong underpinning **structures** were the most consistently highlighted priorities.

“There is something about the different rhythm of what drives economic policy versus national security” - a UK policymaker

*“Between economic and security communities, there are real differences in value systems, touch points, views on risk and understanding of what is important”
- a UK policymaker*

*“Chicken and duck talk”
- a Chinese idiom referred to by a senior Singapore policymaker describing cultural differences*

4. Systematising excellence and encouraging innovation. There are extensive examples of good practice, but these often overly rely on the energy and entrepreneurialism of individuals and on ad hoc arrangements – we need to systematise cross-system capability, reward risk-taking, and have the right systems and structures to support it.

Alongside goodwill, the Fellowship found extensive examples of good policymaking practice. In the UK, participants in the new investment security regime, together with reforms to telecoms, and the recent semi-conductor strategy and the sanctions imposed on Russia, were the most highlighted examples in the Fellowship's survey. Internationally others pointed to similar examples in their countries, as well as other economic security innovations.

However, in all countries there was a consistent perspective that such examples were not systematic, with effective practices often developed on an ad hoc basis with inherent fragility for sustained excellence in policymaking. Participants placed particular emphasis on the decisive impact of the entrepreneurialism and expertise of individuals and identified insufficient breadth and depth of such capability as a critical risk.

“Once an issue is identified, we are good at formatting the system, but it's on an issue by issue basis” - an Australian policy commentator

“Creating connections between communities takes a huge amount of effort to build, and it can break easily” - a UK policymaker

A systematic strategy for strengthening policymaking needs to incorporate an explicit aim of systematising excellence, and of rewarding those who look to take risks and step across traditional boundaries to collaborate. Reflecting engagement, the Fellowship places specific emphasis on raising the expertise of **people** with cross-domain experience and then consistently implementing best practice and on strong **systems** to embed it.

Box 3: Civil servant perspectives on policymaking

The Fellowship's survey asked a set of structured questions to guide civil servants in sharing perceptions about the effectiveness of the different drivers and determinants of policymaking in its assessment framework. Consistent with the Fellowship's wider findings, no single driver stood out as decisive: over 80% of respondents identified improving effectiveness of each driver as important. Within that, collaborating with other **countries** stood as the area where current policymaking was seen as most effective. While, consistent with the Fellowship's wider engagement, improving opportunities and incentives for **people** to develop their experience and expertise and improving the use of **information** in an integrated way stood out as priorities identified for strengthening processes.

Figure 4.1: How effective is policymaking at the intersection of economic and security interests?

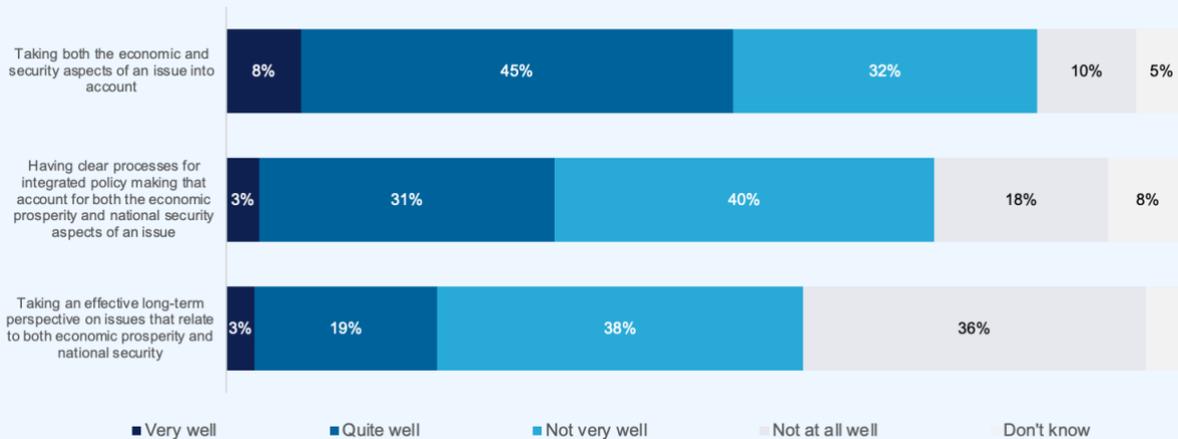


Figure 4.2: How effective is policymaking with respect to each of the drivers in the Fellowship's assessment framework?

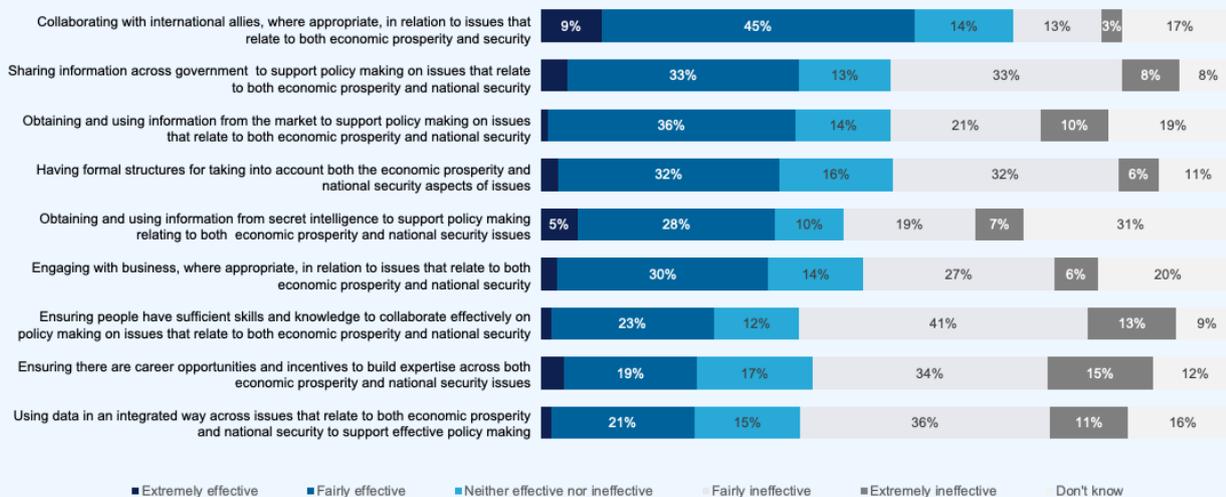


Figure 4.3: Priorities for strengthening policymaking into the future in the quantitative part of survey

5. Long-term agenda: the global dynamics driving increased complexity and uncertainty will persist – we need to adapt policymaking for a new area of statecraft, with an agenda that should mark a step change for the long-term. History provides a good guide.

The trends that are forcing policy into flux are likely to not only continue but to intensify, even if the intensity of geopolitical competition ebbs and flows. This and their deepening and decisive impact on politics in the coming period was a consistent theme of the Fellowship's inquiry.

The strategic context and the chronic challenges it presents puts an even greater premium on the long-standing challenge of ensuring a long-term perspective in policy. The challenge of this for democracies was highlighted in the Fellowship's engagement in both the UK and internationally. UK Civil servants see this as the weakest aspect of policymaking it surveyed: less than a quarter considered current policymaking at the intersection of economic and security interests to be effective at taking a long-term perspective (see Figure 4.1).

“We need longevity but agility in our policymaking. These challenges are inherently decadal, but you need to be able to flip and be agile to risk and opportunity”
- senior UK policymaker

A systematic strategy for policymaking also needs to have an explicit aim of supporting a new era of statecraft that combines strategic consistency in both policy and policymaking with flexibility within a framework. Within this, the Fellowship places particular emphasis on developing **systems** that ensure policymaking and the **information** providing insight for it considers the full time horizon. This includes the importance of established tools for effective strategy development such as futures and scenario planning.

While the long-term nature of the shifting strategic context presents challenges for policymaking processes, it also presents an opportunity: countries can invest in capabilities that will take time to develop, in particular the expertise and expertise of people or in technology that can transform insight from information, confident that they will be relevant and required over an extended time frame.

The Fellowship's historical analysis demonstrates the dividend of developing policymaking capacity over the long-term, with the strategic patience to see through initial objectives. The UK's interwar period economic statecraft capacity was developed over 15 years starting in the early 1920s across five successive governments of every persuasion, encompassing institutional innovations such as the “Advisory Committee on Trade Questions in Time of War”. This capability was built through collaboration with private enterprise in the City of London, and culminating in the production of a “Handbook of Economic Warfare” that evolved over ten years from the late 1920s. Together, these were significant capabilities which not only ensured the lessons of the war were integrated properly in peacetime, but that Britain was better equipped to make the trade-offs inherent to the use of economic measures, across every foreign policy crisis of the interwar period and into the Second World War.

6. Strengthening insight: the technological revolution underpinning global dynamics can also be a critical enabler in addressing them – we need to address current asymmetries in information, and embrace how technology can assist data-driven policymaking excellence.

A critical feature of the global trends and technological transformation underpinning the Fellowship's inquiry is the exponential explosion in data. This is a driver in itself of policy complexity and uncertainty, creating whole new ungoverned global domains, and new dimensions to established agendas: for example, data needs to be considered alongside goods and services in assessing supply chain resilience.

This unparalleled expansion in data should also play a critical role in good policymaking, providing unprecedented information to assist in the identification of mutually-reinforcing choices. Throughout its inquiry, the Fellowship has been impressed by the potential of technology and AI to transform the impact of information. It can help address the challenge of the scale increase in volume of data to synthesise information, and it can enable innovation in techniques to interpret it to inform analysis and assessment. Consequently, investigating how information can better be used and technology better embraced to support policymaking excellence was a specific strand of the Fellowship's inquiry.

Information asymmetry is a problem. There was a recent case with another department holding onto information which prevented policy development. It's unclear if this is because of internal join up, not knowing who to brief, or not understanding the impact
- UK Senior Civil Servant

Throughout the Fellowship's engagement, effective use of information was identified as critical to examples of excellence, and the most interesting innovations in policymaking processes. However, engagement also identified information asymmetry as one of the biggest barriers to effective policymaking across economic and security risks across all countries. A number of specific issues were identified including insufficient information sharing in part driven by culture, access restrictions arising from security classification and clearances, undeveloped frameworks for cross-domain analysis (see Balancing risk and reward). As Chart X, shows while roughly similar proportions of civil servants in the Fellowship's survey thought current policymaking was effective at sharing information across government, by 2 to 1 they thought there were not effective systems for using data in an integrated way across issues. Only with respect to information sharing did the Fellowship sense constraints arising from insufficient goodwill, and concern from some that sharing information risked weakening influence.

A core finding of the Fellowship is therefore the importance of addressing information asymmetries and investing in systems to enable analysis and assessment of information across different domains in support of policymaking excellence. Central to this should be betting on the power of AI to facilitate policymaking, in the same way it has the potential to transform key aspects of policy implementation. In particular, such technology could play an important role in mitigating the barriers arising from differences in tools and terminology across domains identified above by synthesising information to provide shared platforms for interdisciplinary collaboration (see Box 4).

Reflecting its focus, the Fellowship has focused its findings on the intersection of economic, security, international and domestic interests, but they have wider application across policymaking in complexity and uncertainty. This was reflected in engagement, where participants pointed to parallels with the interface with health, economic and social priorities in the context of the Covid-19 pandemic.

7. Balancing risk and reward. Underlying cultural differences are divergent conceptions of risk and reward across the economic and security domains – we need to reinvent policymaking paradigms to capture these coherently. Academia can help with the intellectual underpinning

An evolving insight through the Fellowship's inquiry has been the importance of developing analytical frameworks that are capable of capturing different interests across distinct domains, and in particular the different conceptions of risk across economic and security interests. These differences are reinforced by the tools used in these different domains, from security-focused threat assessment to economics-focused cost benefit analysis. While important in themselves they create barriers to synthesising information and developing policy choices informed by insight across them. The aim should not be to replace such tools, but rather develop frameworks where they can be effectively integrated. The Fellowship found examples of interesting academic innovation (see Box 4), but overall it considers this is an area that would benefit from further research.

Without this, policymaking will struggle to intellectually move beyond zero-sum trade offs across economic and security interests, and miss options which can be mutually reinforcing.

Therefore, in considering its conclusions with respect to the drivers of policymaking in its assessment framework, the Fellowship has sought to test against changes to policymaking that support getting the judgement on risk (and reward) right.

All other things being equal, after a period where resilience arguably played an insufficient part in global policymaking, the Fellowship has found that current domestic policymaking systems are likely to be biased towards security-related risks when addressing specific issues. Some of this is unavoidable and indeed appropriate, reflecting the responsibilities of governments to protect national security. Security risks also tend to materialise more

clearly over a short-time horizon compared to less hard to define upside economic opportunities over a longer-period.

However, some of the bias is a product of asymmetries in the system. Governments have a near monopoly of security-related intelligence and security-related skills, whereas economic insight and expertise is much more diffuse across the market. At least in the UK, decision-making structures are more formalised on security than economic policy. There are sound reasons for this, including that some aspects of economic policy are not subject to collective agreement and that there is a stronger policy/operational chain on security issues within governments, but it also means that when issues arise at the economic/security interface they tend to be taken through the security structures. This was the case, for example, for both the inward investment regime and telecoms. Strategies to strengthen policymaking should correct for these often unintended imbalances to ensure processes are as policy agnostic as possible.

Selected responses by civil servants when asked about priorities to improve policymaking in the survey

"We need a better methodology for measuring cost-benefit in these circumstances. We are often balancing large but uncertain risks against immediate and measurable costs or specific, concrete risks against relatively amorphous, cumulative impacts which makes it hard to explain what the trade offs they are making are."

"We should have common analytical approaches and metrics for comparing outcomes and trade offs across economic and security considerations., Currently both can be assessed but it is generally not possible to weight a good outcome on one side against a bad outcome on the other to get a sense of whether overall it is 'worth it'."

Box 4: Risk, reward and resilience⁹



An example of a potential analytical framework for capturing different conceptions of risk across economic and security domains is the “Risk, Reward and Resilience (RRR) Framework” that was developed by Anthea Roberts at the Australia National University and which has now been turned into an AI tool (RRR.ai).

As discussed in the Context section, the Fellowship dismisses a presumption that there is a binary trade off between economic and security interests with respect to global interconnectedness. The framework provides a useful analytical tool that captures this point by setting out the drivers of risk (threat/hazard, exposure and vulnerability) and reward (opportunity, access and capability) and showing how connections among these drivers create synergies and trade-offs with respect to particular issues.

In addition to balancing risk and reward, the Fellowship found the approach potentially powerful because it incorporates resilience as a way to mediate between risks and rewards. The framework defines resilience broadly to include not just an ability to withstand shocks and stressors, but also to capture future rewards and cope with change. Always seeking to eliminate or minimise risk in the short term is likely to undermine systemic resilience over time by introducing new vulnerabilities. The same is true for always maximising immediate rewards, which often comes at the cost of overlooking or creating systemic or long term risks.

“Companies and countries need to embed calculations about risk and reward in a broader framework of systemic resilience - that is the characteristics of a system that determine its ability to survive and thrive over time.”

Developing systematic resilience as a concept alongside risk and reward could help ensure policymaking systems are incentivised to address both downside risks and upside opportunities, and it can give them a way of thinking more dynamically about managing both short- and long-term interests. Systemic resilience depends on a set of dynamic capacities to cope with change, including the ability to absorb shocks (absorptive capacity), adapt to changes (adaptive capacity), and fundamentally transform incentives and structures (transformative capacity). These dynamic capacities are important because levels of risk and reward are not fixed. Individuals, companies and governments can take actions to avoid or mitigate the harms caused by potential risks and also enable or enlarge the benefits caused by potential rewards.

Many resilience strategies can enhance rewards and mitigate risks at the same time, demonstrating that pursuing opportunities and managing risks is not a zero-sum game.

⁹ Risk, reward and resilience framework: integrative policymaking in a complex world, A Roberts, March 2023

Box 5: Business perspectives on managing geopolitical risk

The Fellowship's survey asked a set of structured questions to guide business in sharing perceptions about how geopolitical risk is impacting their business, who they seek advice on to manage them, and how effective current policy regimes are in assisting them do that. Unlike for the civil service survey, the Fellowship did not specifically test perceptions of all the drivers of effective policymaking in its assessment framework, and instead focused on the perspective of engagement with business.

Reflecting insight from others, the Fellowship's survey reinforced that business sees geopolitics as a growing feature in their decision-making: over 60% of respondents said geopolitical risk was becoming increasingly important to their decision-making. More businesses felt they were managing these risks well to those who didn't (approximately 50% to 10%), although over a third either felt they were neither managing them well or badly or didn't know. While there were not significant differences across sectors, there were important differences between larger and smaller business in confidence in addressing these risks: while 65% of the largest businesses felt they know how geopolitics is impacting them, and 55% felt they were managing these risks well; that fell to 45% and 40% respectively for smaller businesses (see Figure 5.1). Within larger businesses, the very largest were less confident about how well they were managing their risks.

Figure 5.1: How effectively are businesses managing geopolitical risk?

	Business size		
	Total	50 to 249	500+
Geopolitical risk is becoming increasingly important for decision making within the business	62%	53%	67%
I know how geopolitical risk impacts our business	58%	48%	64%
We are managing the geopolitical risks that the business faces well	49%	41%	54%
We have the information we need to manage the geopolitical risks we face	43%	39%	46%

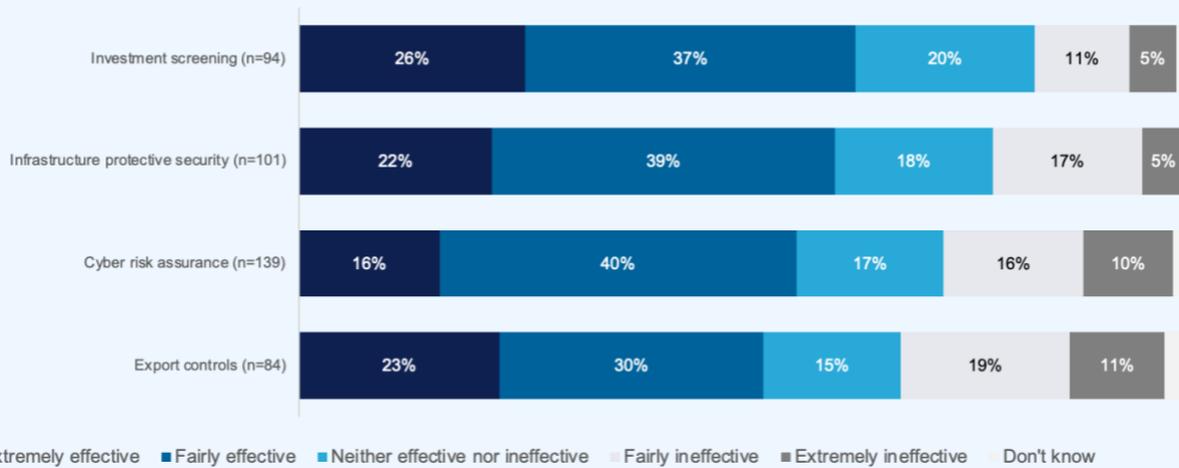
As noted above, the dominant theme of the Fellowship's engagement with business was a desire for deeper engagement with governments on managing geopolitical risk. The survey reinforced this: business looked to government most for help, advice and support in order to understand, manage and mitigate any geopolitical risks, along with trade organisations and consultancies (see Figure 5.2). However, nearly a fifth did not know who they would look to and only just over a fifth felt they had the information they needed from government.

Figure 5.2: Where do businesses seek advice on managing geopolitical risk?

	Business size			
	Total	50 to 249	250 to 499	500+
Government advice and guidelines	46%	41%	39%	50%
Independent 3rd party risk management consultants	44%	31%	49%	49%
Business organisation / trade association (e.g. CBI, BCC, FSB)	42%	38%	34%	45%
Industry peer / businesses similar to our own	37%	37%	38%	36%
Insurance company / broker	17%	17%	21%	16%
Other	4%	6%	-	3%
Don't know	18%	21%	20%	16%

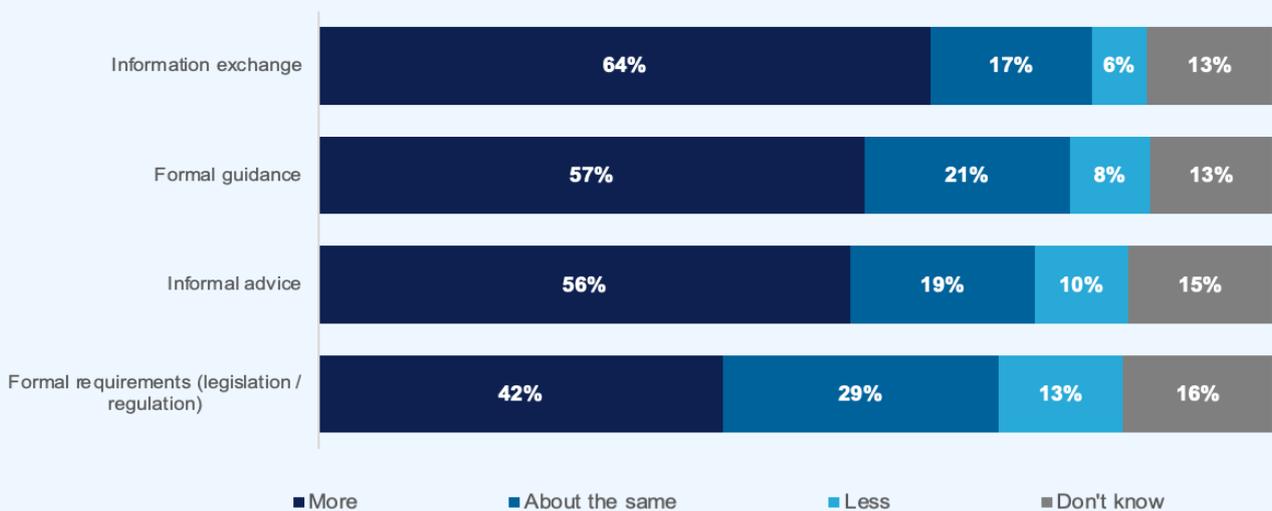
Only 40% said they had engaged with one of the existing policy regimes the survey asked about (investment security, export licensing, cyber risk assurance, protective security). Amongst, those who had the Fellowship's engagement showed business confidence in policy clarity and engagement increased. It also showed that businesses with direct experience of working with these different regimes found them to be effective: over 60% considered policy regimes on investment screening and protective security to be effective, over 50% with respect to cyber risk and export licensing.

Figure 5.3: Based on experience, how effective do business find current policy regimes?



The survey showed business principally was looking for more informal engagement with government in navigating geopolitical risk: nearly two thirds thought there should be more information exchange, just over 55% thought there should be more formal guidance and informal advice. Respondents were more balanced on formal intervention: just over 40% thought there should be more legislation or regulation, but with a similar proportion wanting either about the same or less.

Figure 5.4: What type of additional government intervention do business want to manage geopolitical risk?



8. Reimagining relationship with business:

global dynamics imply a more complex interface between the state and the market. While this poses questions for policy, as important is the need to reflect this in policymaking, with a reimagining of the relationship between governments and business.

As discussed in the Context section, the geopolitical and global trends informing the Fellowship's inquiry imply a more complex interface between the state and the market - and so in turn between governments and business.

It is for this reason that the Fellowship placed such emphasis on engagement with business. Throughout that engagement in the UK, US and beyond it has been struck by the extent to which the geopolitical and global trends that are transforming government policymaking are doing the same for business decision-making.

In both its qualitative interviews and its quantitative survey, the Fellowship found a strong desire from business for deeper engagement with governments on managing geopolitical risk, and for greater clarity of policy posture on it. Overall the Fellowship found a strikingly different tone in what business was looking for from governments from what it imagines would have been found in the first phase of globalisation.

By contrast, in both the survey and interviews civil servants were less likely to instinctively identify increased engagement with business as the highest priority. At the same time, the Fellowship found the UK's arrangements for engagement with business on these issues to be comparatively less deep compared to other countries within the scope of its inquiry. The most developed arrangements, both generally and for economic security specifically, were found to be in Japan.

enforcement of Japan's economic security act" - former senior Japanese policymaker

The Fellowship sees a reimagining of the relationship between governments and **business** as a central component to a systematic strategy for strengthening policymaking within the context of a generally more open policymaking culture.

Indeed deeper engagement and **information** sharing at every stage of the policymaking chain will be essential for policymaking at the intersection of economic and security interests, to stay ahead of geopolitical trends. Development of policy will require combining better security intelligence - that principally only states can provide - with market insight that businesses are best placed to bring. The perspective of market participants was critical in designing sanctions against Russia, and will be as important in areas where governments are attempting to understand and potentially act on economic resilience risk. Meanwhile, delivery of policy will rely on the judgement of market participants: while the trends identified in the context section likely imply more prescription from the state where risk is greatest, even then in the vast majority of instances it will remain for business to make risk-based decisions themselves. Governments will have an important role to play in providing information both on risks and its likely stance to enable business to make informed judgements.

"Guidance from the government to the private sector was highly important during

9. Evolving alliances: global dynamics also imply more complex interlinkages between states – we need to reflect this in policymaking too, and address how countries can act as both economic competitors and strategic collaborators on the same issues at the same time.

Alongside the implications for the interface between state and market, the trends underpinning the Fellowship's inquiry also imply an evolving relationship between states. As the G7's share of the global economy falls, so the importance of collaboration that enables allies to act in a way that is greater than the sum of their parts increases. There should be substantive economic benefit to this: some of the reglobalisation trends discussed in the Context section necessarily imply reduced economic efficiency; cooperative agendas, such as through "friend-shoring", should help ameliorate that and share risk.

However, just as these trends present challenges for traditional domestic policymaking, so they do for international. The geopolitical dynamics demand collaboration between traditional security partners in areas where even as allies and as market economies countries have traditionally competed. That is complicated by the increasing intertwining of domestic and international interests, where the former if anything increases pressure for competition. The dynamics have been most clearly demonstrated by the current innovation in industrial policy referred to in the Context section.

"Effective international cooperation is key. We must promote a dynamic of cooperation in our domains." - former senior official in Japan

A systematic strategy for strengthening policymaking therefore needs to include an explicit international strand to enable **countries**, especially like-minded allies, to collaborate and compete on the same issues at the same time. That will require better embedding of international issues into domestic policymaking, including ensuring **people**

have skills across both. It will also require policymaking **systems** that capture the implications of a more complex era of statecraft in a more multi-polar world to enable a more strategic approach to bilateral and multilateral relationships.

These dynamics are also likely to require reviewing the **structures** for international cooperation to reflect the significantly more prominent role of economic levers as tools of statecraft. In recent years the G7 has taken on a more significant role in cooperating on economic security issues, including coordination of the sanctions against Russia. Meanwhile traditional formal economic mechanisms relating to trade are principally designed to provide a framework for economic competition and are not well suited to facilitating strategic collaboration of the kind that statecraft requires. Initiatives such as the UK-US Atlantic Declaration, AUKUS between the US, UK and Australia, the EU-US Trade and Technology Council or approaches emerging from the Quad between the US, Australia, India and Japan are all innovative examples studied by the Fellowship of new forms of collaboration.

10. Learning lessons. With so much complexity and uncertainty, we need to make sure policymaking is better at learning from best practice and past precedent.

Finally, the Fellowship's insights have been considerably enriched by its historical and comparative analysis. A feature of its engagement, however, has been a strong sense that policymaking processes do not sufficiently learn from either past precedent or best practice, especially with respect to policymaking process as opposed to policy itself. A systematic strategy for strengthening policymaking should include a stronger historical analysis component than hitherto

Conclusions

To stay ahead of global and geopolitical trends, integration and innovation needs to be incentivised in all aspects of policymaking through a systematic and sustained strategy

The Fellowship has prioritised an overarching objective of incentivising a **culture** where integrated and innovative policymaking is instinctive, similar to that which came about in the combating of terrorism at the end of the last century, or is coming about on climate change in this.

Like those, no single shift can be decisive nor will culture succeed alone. Instead a systematic strategy needs to promote excellence across every area of the Fellowship's assessment framework.

The tone set from the top in championing this agenda will be essential: senior leaders setting an expectation that issues should be seen as inherently important to economic and security interests, and that an integrated approach to addressing them should be the norm will be critical to determining how entrenched any of the change set out here becomes.

A number of consistent priorities emerged which are reflected in the emphasis of the conclusions:

- there needs to be a **recalibration of what excellence looks like in policymaking capability** in a context of persistent complexity and uncertainty. The core of this should be a stronger emphasis on cross-domain collaborative policymaking, and ensuring **people** have the career incentives to develop the experience and expertise necessary for this;
- there needs to be a **reappraisal of the frameworks used for policy problem-solving** to consistently and coherently reconcile

different conceptions of risk, reward and resilience over time. The core of this, including through embracing technology, should be ensuring integrated **information and insight** underpins the policymaking process;

- there needs to be a **reimagining of governments' critical partnerships** to reflect the new era of statecraft and a more complex interface between the state and market. This should include new systems to enable **countries** to compete as market economies while collaborating on shared strategic interests. It should also include new systems to enable governments and **business** to collaborate on developing and delivering policy to manage geopolitical risk; and
- finally and as a necessary but not sufficient step, there needs to be a revision to **structures and systems** to underpin these other changes. The core of this should be a stronger function at the centre to drive change in policymaking capability, as well as coherency of policy itself.

These conclusions don't seek to be fully comprehensive, rather they are focused on steps that would make the most impactful difference. Where they make recommendations, they focus on the function rather than form, recognising the former can be achieved through different approaches to the latter, and that the latter will often depend on factors beyond the scope of the Fellowship's inquiry.

Systems

Establishing and embedding best practice and long-term perspective in policymaking

Strong systems are the glue that bind different drivers of effective policymaking together. **Ensuring existing examples of best practice are embedded is the underlying prerequisite for a step change in policymaking arising out of Fellowship's inquiry.**

Such systems take time to establish. While the Fellowship is cautious about advocating additional bureaucracy and concerned about the risks of that to innovation, as an emerging policymaking frontier across traditionally distinct domains it is important to put sufficient order around the process, including to ensure a sufficiently long-term perspective.

RECOMMENDATIONS

Institute process playbook for economic security to codify principles and best practice in policymaking process

Develop an operational handbook for economic statecraft to ensure that economic tools are better integrated into national security architecture

The Fellowship assessed examples of best practice, past and present, including the UK's internationally respected 'CONTEST' Strategy for counter-terrorism, and Britain's 'Handbook for Economic Warfare' during the interwar period of the 20th Century. Other existing models were also examined in the course of the Fellowship's international engagement. Many of the best cases were found to share common characteristics for success in managing complexity, uncertainty and interdisciplinarity in policymaking. For example, Britain's 1938 Handbook for Economic Warfare was structured around three parts: agreement of theory and organisation; codification of measures; and clarity of procedure governing the use of measures.¹⁰ More recently, the fusion doctrine

presented by the UK in 2018 represented a serious effort to articulate a coherent conceptual framework, albeit from a national security perspective, the basic insight for which was if anything ahead of its time.¹¹ Without adequately mature systems for ensuring decisions can be taken in a way which draws on the full breadth of views, information and capabilities for dealing with them, in particular at times of policy flux, there is a risk policymaking process will not be sufficiently resilient to support good decision-making.

Economic security

To this end, the Fellowship recommends that a "process playbook" for economic security should be developed to capture and codify best practice, including to embed a longer-term focus in policymaking. The playbook should explicitly not be about defining policy itself, rather it should be agonistic to any particular issue and be about the process to determine what specific policy should be. It should, though, provide the basis for developing a comprehensive policy toolkit, across potential proactive and defensive measures, including against risk of exposure to coercion. It should be made publicly available both to support accountability to Parliament and to provide clarity for business.

Such a playbook should include:

- **Principles** – providing external and internal clarity on different interests across and common definitions in the policymaking system. This should help address concern in engagement that lack of clarity on this was a factor entrenching cultural differences.
- **Process** – codifying arrangements for and capturing best practice in the development of and deciding on policy, including sufficient focus on long-term risk and reward, and on implementation and enforcement. This should help avoid the current identified risk of reinventing procedures as issues arise, and mitigate – although never completely – a bias to them short-term.

¹⁰ The National Archives, FO 837/3

¹¹ HM Government, *National Security Capability Review*, March 2018. Principle: "To deploy security, economic and influence

capabilities to protect, promote and project our national security, economic and influence goals."

- **Roles and responsibilities** – codifying accountability for decisions, for both chronic challenges and acute crises. This should help address the concern identified by some in the engagement that there was insufficient clarity on decision-making rights in cross-domain policymaking.
- **Resourcing toolkit** - establishing options for allocating resources flexibility across the system for specific cross-domain policy issues. This helps address the challenge identified in engagement of developing best practice for cross-domain teams and for deploying resources for them quickly when needed.
- **Impact** – codifying arrangements for ex-ante analysis and assessment, and ex-post monitoring and evaluation, that should underpin policymaking (see 'Information').

An underlying objective for this playbook should be to develop the analytical frameworks, methodologies and toolkits to synthesise information and different interests. Academic research, such as but not only the Risk, Reward and Resilience framework described in Box 4 in the Insight section, should be drawn on in doing that.

The UK's 'CONTEST' strategy is an example of how codifying procedures can support long-term policymaking and implementation. It is now over 15 years old and has sustained through crisis events and changes in government. The Fellowship assessed the strategy and sought perspective of those who had worked within it in developing its

conclusions. A number of success criteria were identified of relevance, including: establishing a broad community to assess a shared problem and arrive at a shared understanding of it, having a clear plan across every community to tackle it, and having a common definition of strategic impact over time to be accountable to.

Economic statecraft

Alongside a broader "process playbook" for economic security, there is a case for a specific "operational handbook" for the development and deployment of tools of economic statecraft in times of crisis. In a similar way to doctrines on military and wider security capabilities. Such a handbook would provide a codification of the comprehensive tools of a nation's economic statecraft, why they are used, and how they are applied.¹² Something with structure like this would provide internal clarity for decision-making on the development and deployment of tools, and also external clarity and comfort on our posture. Importantly it would help ensure economic tools are better integrated into national security architecture, and their potential use calibrated alongside traditional political and military effects.

As set out in the Summary of Historical Research section, the British 20th Century interwar efforts to learn the lessons from deploying a comparably comprehensive set of economic sanctions to those used on Russia in 2022, and integrate that wartime experience into its long term foreign policy in the interwar period, including through the development of a 'Handbook for Economic Warfare', constitute a good model to draw from.

¹² For example: Intelligence, counter-intelligence and security support to joint operations (JDP 2-00), Ministry of Defence, August 2023

People

Recalibrating what excellence looks like for context of persistent complexity and uncertainty

The biggest determinant of the effectiveness of policymaking has always ultimately been the capability of policymakers themselves. **Ensuring the Civil Service has people with the experience and expertise for a context of persistent uncertainty and complexity is the most important priority arising out of Fellowship's inquiry.** This will require a systematic and sustained strategy to strengthen overall capability, and explicit choices about priorities. It will require changes to how the civil service actively manages its people and incentivises their progression, including in what is expected of leaders, how careers are managed, how development is designed, how risk is rewarded, and how this is consistently supported corporately across Whitehall.

RECOMMENDATIONS

Place stronger emphasis on importance of experience and expertise in cross-domain policymaking, including in required experience of senior leaders

Establish an economic security cadre with incentives for policymakers to develop their career across and at intersection of economic and security domains

Embed common knowledge, skills and standards in economic, security and international policy for all policymakers at entry and early career to facilitate effective cross-domain collaboration

Much of the insight of the Fellowship reinforces the established arguments that inform current and previous agendas for Civil Service reform.¹³ It would require the focus of a separate Fellowship to meaningfully assess that overall agenda. Rather, the Fellowship focuses its conclusions on areas of additional emphasis arising out of its inquiry. In that context, given the long-term nature of the policymaking challenge discussed in the Insight section, the Fellowship particularly stresses the importance of sticking to and seeing through capability reform in a sustained way over time.

The principal additional insight from the Fellowship's inquiry is the increased importance of cross-domain policymaking and of creating safe space for innovation in a new era of statecraft. This has been the most important element in the examples of excellence identified. In recent times there has been an emphasis on improving linkages between policy development and delivery, and that remains critical. The trends studied by the Fellowship imply an increased emphasis within policymaking itself and on linkages between the traditionally distinct economic, security and international domains. While establishing systems to enable people with different specialisms to collaborate is essential, there also needs to be a sufficient critical mass of people with cross-domain expertise to credibly lead policymaking across them. To this end, the Fellowship's conclusions reinforce the importance of valuing policymaking as a profession and it welcomes the ongoing agenda to reinvigorate the Policy Profession in this regard.

Placing a stronger emphasis on cross-domain policymaking should be reflected in all stages of the profession, with an agenda to raise both the floor and ceiling of expertise and experience, supported by incentives for people to develop their career accordingly, and a recognition this will require choices about relative focus on other aspects of capability:

- at entry and early career level, officials across different domains, including those in the policy, economics, security and analytical domains, should have a **common set of baseline knowledge and skills in economic, security and international policymaking**. This

¹³ HM Government: Declaration on Government Reform, June 2021

should form part of the Fast Stream where applicable and could be reflected in the capability programme being developed by the Policy Profession. It should be supplemented with other opportunities for cross-domain learning, including formal rotation of placements, as well as informal shadowing and networking. The overall aim should be to ensure policymakers acquire the foundational skills to be able to collaborate effectively across domains throughout their career.

- for mid-career, an **economic security cadre** should be established to form an upward spine for those looking to develop their career at the interface of economic and security domains. To be effective this will require sustained leadership commitment, including a champion at the most senior level, with active demonstration of that in career progression for those developing this experience. The cadre should be supported with a dedicated professional development programme to improve specialist, technical and applied skills; the provision of reserved posts in key departments to actively encourage cross-domain experience; and structured interchange with the private sector, especially sectors exposed to national security risk. There should be an explicit aim to encourage diversity in the cadre. The aim should be to create much stronger incentives, reinforced through progression, for those looking to champion cross-domain policymaking excellence.
- at leadership level, there should be a **stronger relative weight placed on a requirement for experience of complex cross-domain problem-solving leadership in uncertainty**, accepting this will imply relative less weight on generic leadership and narrow single-domain expertise. As in other areas, revealed preference through senior appointments sends signals and creates incentives. Over time, the development of the cadre should enable key leadership positions to be drawn from experienced, credible and qualified individuals.

Selected responses by UK civil servants when asked what on specific change they would make to strengthen policymaking relating to both economic prosperity and national security

"We need the right career incentives and training, and a structured way of bringing communities together."

"We need to provide baseline national security and economic training for all mid-career staff."

"We should raise the profile of expertise in both - at present promotions and advertised roles are stuck in silos that reward people with experience in one or the other."

"We need improved expertise across both areas, rather than segmented pockets of knowledge across different departments."

"We need a large cadre of civil servants ... who have an understanding of both economic and national security policymaking. At the moment we don't, so we rely on some fairly ineffective structures to bring decisions together - but structures aren't a substitute for having civil servants with a broader range of skills."

"We have good policymaking skills in both disciplines, but few who are sufficiently expert in both."

Information and Insight

Addressing asymmetries and embracing technology for data-driven decision-making

Excellent policy decisions depend on excellent insight, especially across domains where it is essential in finding mutually reinforcing approaches. **Addressing current information asymmetries through better integrated analysis and assessment, and embracing the potential of technology is a critical capability challenge arising out of the Fellowship's inquiry.** This will require confronting long-standing caution in practice if not in principle about the steps needed to achieve this.

RECOMMENDATIONS

Consider case for a 'Joint Analysis and Assessment Centre' at centre to drive integration and innovation

As part of this, establish a stronger futures and foresight function to support long-term policymaking.

Undertake a review of information access and availability to address cross-system barriers to information sharing

Accelerate application of Artificial Intelligence to enable integrated analysis and assessment

Establish a network of 'Chief Historians' across departments to ensure past precedent in policymaking better informs the present

Covid-19 highlighted the importance of all source, multi-disciplinary, multi-domain analysis. It also prompted a number of important innovations in how the centre of government approaches information in support of policymaking: the Covid-19 Taskforce included a substantial analytical capacity, alongside it a National Situation Centre was established to improve the use of data for situational awareness and crisis response; a data science function, 10DS, was established within 10 Downing Street. Some of the Covid-19 Taskforce functions have been retained in a Joint Data and Analysis Centre (JDAC). At the same time the Joint

Intelligence Committee (JIC) has sought to broaden its scope of assessment, in part reflecting the definition of national security in the Integrated Review. There are also useful previous efforts to draw on, including the Central Policy Review Staff (CPRS) of the 1970s and the Prime Minister's Strategy Unit (PMSU) of the late 1990s and early 2000s.

The Fellowship's conclusions seek to build on these innovations as well as approaches in other countries, to strengthen further the role of information and insight, in policymaking in uncertainty and complexity. As with other areas, while the Fellowship has focused on the economic / security interface, these conclusions have application for wider cross-domain policymaking.

The Fellowship has developed its thinking on these issues with the Institute for Government. A joint-paper, the first of two, titled "*Beyond the Silos: analytical capabilities at the intersection of economics and security in 20th century Britain*", can be found as a supplement to this report.

Availability of information

As discussed above, effective policymaking at the economic / security interface will require better combining of sovereign intelligence that governments can principally provide with market insight that businesses are best placed to bring for both policy development and delivery (see 'Business' below). As part of this Fellowship recommends there should be a more structural approach to determining the best sources of "economic intelligence" ensuring that as comprehensive data as possible is available to inform analysis.

Review of access to information

The Fellowship found the drivers of barriers to information access to be complex. While there was strong feedback from its engagement that insufficient security clearance amongst officials was a significant issue and this needs to be addressed, some also identified that some information may be over-classified. Others also identified the strategic imperative for sharing insight with external partners, especially business, where security clearance was not practical or possible. Others highlighted that regardless of the security sensitivity of information, there were cultural barriers to sharing information. While others placed emphasis on the importance of

skills to enable people to interpret economic and security information (see 'People' above). Some also identified current legislative requirements that impact on sharing of information across the system. The Fellowship therefore recommends there should be a fuller review of information access and availability, explicitly considering how clearances can be increased, how classification procedures may be adapted to facilitate sharing of information, and what presumptions should be in place for sharing of analysis.

Analysis and assessment of information

Cross-domain policymaking of the kind that is the focus of the Fellowship's inquiry will require more systematic arrangements for all-source, multi-disciplinary, multi-domain analysis, leveraging information and expertise from across government and outside.

The Fellowship also considers it important to expand arrangements for assessment so that this is available for all aspects of cross-domain policymaking. The aim of this would not be to provide a definitive consensus view as the complexity and uncertainty of issues prevents that. Rather it would be to provide insight on the spectrum of possibility and probability about the different factors. This would not prevent different interests in the policymaking process bringing their different perspectives and positions, but it should facilitate providing choices which seek to be mutually reinforcing rather than zero-sum trade-offs.

At times the Fellowship found some caution about the role for such assessment, particularly amongst economic policymakers, partly reflecting the inherent challenges of such assessment across different domains. To that end, as discussed in the Insight section, an updated set of analytical frameworks that in particular can capture different conceptions of risk across economic and security domains would be a critical underpinning (see 'Risk' and Box 4 in Insight section).

The assessment functions of the JIC, in particular its convening approach, the requirement of all parts of the system to share all relevant analysis, and the authority of an independent chair, would be a template to build on. The arrangements developed

in Australia as part of the Office for National Intelligence should be considered in this context.

Long-term focus in assessment

An expanded assessment function across all cross-domain policy issues should have an explicit objective to capture short- and long- term downside and upside implications. This should include more systematic use of scenario analysis to support long-term perspective. The Fellowship therefore recommends the establishment of a stronger futures and foresight function, building on existing functions in the UK in GO-Science and elsewhere. The Singapore Centre for Futures and Scenarios, which was cited consistently in engagement should be considered as a model of best practice at eroding boundaries across domains and creating platforms that explicitly cut across them.

Embracing technology

Finally, as discussed in the Insight section, technology has the potential to transform the role of information and insight in policymaking. The Fellowship was impressed by the recognition of this amongst policy-makers, but also felt systems and structures for analysis were not yet incentivised sufficiently for it. While significant attention is being given to the role of AI in public services, less is being paid to its role in public policymaking. The Fellowship recommends that the UK should set itself the objective of being the most advanced country for the application of AI in policymaking, drawing on best practice from other countries but incentivising innovation in the UK, using governments' effective monopoly on formal policymaking. To that end, the recent establishment of the "Incubator for AI" in the UK government is welcome. This should be built on with greater incentives – including financial – for the development of AI tools that can synthesise large volumes of data and interpret data from across different domains in support of integrated analysis and assessment.

A Joint Analysis and Assessment Centre?

These series of steps to strengthen the role of information and insight could be achieved in a

number of different ways. They should explicitly build on the institutional innovations since Covid-19, in particular JDAC, and borrow from the best practice for security assessment by the JIC. Across these arrangements there is already considerable capacity and capability, with examples of best practice.

As a minimum there should continue to be stronger collaboration between them; a more maximalist approach would be to bring them together into a single function with responsibility for some or all of conducting assessment for cross-domain issues, coordinating multi-disciplinary, multi-domain analysis across government in support of this, championing innovation in insight techniques and commissioning of all-source information.

Particular thought needs to be given to how assessment could be expanded and command the confidence of all interests. The JIC provides a model that could be extended and is internationally recognised; but it has its origins in one domain and has a set of specific responsibilities for the integrity of the intelligence system that should be protected. The historical evolution of economic intelligence highlighted above could provide useful precedent. The best approach will depend on part on where there is a focus on strengthening a assessment on cross-domain economic and security issues, where an extension of the JIC supported by JDAC may be most effective; or whether there is a broader focus on assessment for wider cross-cutting policy around economic, social and other issues and where security interests may be less relevant and which would point to something more far-reaching.

A final consideration is how much of any assessment should be publicly available. When secret intelligence is used that is clearly a constraint. However, building on for example the precedent of the Office for Budget Responsibility (OBR) with respect to fiscal policy, the Fellowship considers there is a case for a presumption in favour of in principle openness.

Network of 'Chief Historians'

While the last seventy years has seen a welcome professionalisation and increase in the economics and scientific disciplines in Whitehall – and with that their integration into policymaking – the same is not

the case for historical analysis and the helpful corrective it can often play for policymakers. Indeed, capacity has steadily lapsed over past decades. As discussed in the Insight section, the Fellowship's own engagement and primary research has confirmed the importance of correcting this gap in the data that should be available to decision makers. Serious consideration should be given to more formal institutional mechanisms to, including the establishment of departmental 'Chief Historians', supported by appropriate expert capability, on a par with Chief Scientists and Chief Economists.

International

Reimagining partnerships for strategic collaboration and economic competition

Effective statecraft has always required international cooperation. **With economics increasingly core to statecraft, systems for collaboration need updating.** This has implications for countries' own policy processes, with a much wider range of traditionally domestic policy also inherently international in nature, necessitating the embedding of international policymaking capacity into domestic departments.

RECOMMENDATIONS

Embed international interests into every relevant area of domestic policymaking, underpinned by sufficient capability

Develop stronger systems for allied coordination on economic security and statecraft

As discussed in the Context section, existing formal economic mechanisms relating to trade principally are designed to provide a framework for economic competition, and are not well suited to facilitating strategic collaboration of the kind that statecraft requires. Meanwhile, as with domestic policy, structures for strategic collaboration on international economic issues amongst allies tend to be less formalised than those for security cooperation.

The Fellowship therefore recommends attention should be given to developing an updated toolkit for formal international collaboration on economic security issues. This could be developed amongst allies in the context of the G7, including piloting approaches between countries. This could ultimately include a more formal role for the G7 itself, especially in relation to responding to acute crises. While it is likely that allied cooperation will be the principal forum for collaboration on economic

statecraft, it is important too that systems are developed for cooperation with wider partners, including with respect to sanctions as discussed in the Fellowship's previously published research.¹⁴

Alongside this, the Fellowship recommends ensuring there is an appropriate international element to its principally domestically-focused recommendations. For example:

- **systems:** process playbooks for economic security should include best practice presumption for when and how to coordinate with allies, while an operational handbook for economic statecraft should be developed in coordination with like-minded allies;
- **people:** an economic economic security cadre should include explicit provision for international exchange, while the provision of common core skills should include baseline training in international policy and procedures; and
- **information and insight:** strengthening the arrangements for analysis and assessment should include appropriate international cooperation. This could include formal stronger systems for sharing of economic intelligence and insight, similar to Five Eyes for core intelligence sharing, but with broader G7+ allies to ensure greater economic resilience across the democratic world.

¹⁴ The Heywood Lecture: the future of economic statecraft - reflecting on the response to Russia's invasion of Ukraine, J Black and Between War and Words: can economic

deterrence uphold international stability? J Connolly, Blavatnik School of Government Working Paper 055, September 2023

Business

Reimaging relationships for a more complex interface between market and state

Excellent policymaking has always been informed by an effective approach to the interface between the state and the market; the twin peaks in global economic integration and geopolitical competition make it essential. **A deeper and broader partnership between business and government in development and delivery of policy is therefore one of most significant conclusions arising from the Fellowship's inquiry.** There are mutual dividends for both in the management of security risk and opportunities for growth. This will require significant changes to how policymaking is done, including in instinct. But given the imperative to combine market and sovereign insight they are essential steps if policymaking is to step up to the challenge of the changed context.

RECOMMENDATIONS

In partnership, develop mechanisms for more systematic sharing of market insight and security assessment between government and business

Establish a National Economic Security Centre as one-stop-shop for supporting emerging and sensitive technology businesses with innovation, investment and export issues

There is a long-standing debate about how the overall relationship between government and business should be strengthened which runs well beyond the remit of the Fellowship, but is reinforced by it and by the comparative analysis with other countries. Indeed, based on its comparative analysis with other countries, this is the strand of the Fellowship's conclusions where the UK needs to make most relative progress to match best practice. The Fellowship has focused its recommendations on specific steps to respond to the consistent theme of its engagement for a stronger partnership between business and policymakers in addressing geopolitical risk.

Proper partnership

As discussed in the Insight section, throughout the policymaking chain from development through to delivery implementation, effective policymaking will increasingly demand more sophisticated combining of sovereign intelligence assessment and market insight. This is necessary to help governments to determine where it is appropriate to intervene in the market for security related reasons, but equally to help businesses price security risk into their commercial decision-making.

This will require stronger ways of sharing information, insight and intelligence, and of involving business more structurally in policymaking from design through to delivery. There are good examples of this across government, for example, through the way the National Cyber Security Centre (NCSC) exchanges information with the market, which the National Protective Security Authority (NPSA) will help expand. The new public-private Forum on economic security challenges will facilitate this at a more strategic level. But more significant steps are needed, including, given how statecraft is evolving, formal structures for business participation in relevant policymaking.

As part of that, governments should consider how they can more systematically make sensitive information, sometimes informed by secret intelligence, available to market participants so they can make more informed security related decisions (see 'Information' and proposed review of information access). This is not straightforward given the complex international structures of large business, and the challenge of sharing information with non-nationals.

Stronger support: a National Economic Security Centre?

While the need to strengthen the partnership applies throughout the policymaking chain, the Fellowship has found this to be a particular priority in the UK in the implementation of policy, either where government has not formally intervened and the judgement is left to the market or where business needs greater support to comply with formal requirements. This was reflected in the priorities for deeper engagement identified by business.

There have been important innovations to support this that, as set out in Box 5, have been positively received in the Fellowship's engagement, including

company specific interviews. This includes the establishment of arrangements for operating the National Security Investment Act (NSIA) regime, the creation of the NPSA, and before it the NCSC.

However, the survey also showed that these positive steps have only gone so far in ensuring businesses have the information they need to manage their geopolitical risks. Importantly, while those businesses who have engaged with the current policy regimes covered by the survey (investment security, export licencing, cyber risk assurance, protective security) generally found them to be effective, less than half of businesses have engaged with them. In its more detailed engagement, the Fellowship also found smaller businesses in particular commented on the complexity of different arrangements.

Reflecting this, building on recent innovations, support for business navigating geopolitical risk should be simplified and strengthened further, covering in particular:

- **increased exchange of information on economic security risks**, including for example on supply chain exposures;
- **integration of advice and assistance on complying with formal requirements**, in particular on investment security, export licencing, and also economic sanctions, especially trade related; and
- potentially also, **integration of advice on protective security**, including on infrastructure and innovation.

As with the Fellowship's recommendations on information, these steps could be achieved in a number of different ways. As with those they should build on the recent innovations described above. This ranges from stronger join-up across existing functions to bringing some or all of them together into a single function to create a single point of contact for business that would provide a "one-stop-shop" support to business, especially in the emerging and sensitive technology sector. Whatever form, the focus should not be on direct policymaking responsibilities, but rather the operation of the policy regime. Any changes in focus in this area should be fully embedded into wider structures for facilitating coherency in engagement with business.

Any changes would not be straightforward as functions are currently spread across different departments and agencies, with different operational responsibilities. Careful consideration would need to be given to both breadth and depth of function, especially with respect to procedures for formal decision-making on investment and export decisions and the responsibilities of technical authorities in the intelligence agencies. While more far-reaching changes are inevitably more complex, given the potential benefit for business and for mitigating the risk of unnecessary economic missed opportunities, such changes should be properly considered.

Structures

Strengthening centre to drive policy step change in cross-system policymaking capability

Strong structures matter to all good policymaking especially where there is cross-system complexity. **Given the scale of policymaking challenge, there is a need to strengthen central structures to ensure coherency of policymaking and drive the needed step change in capability across the system arising from the Fellowship's insights.** But strong structures are a necessary but not sufficient condition and should not be overemphasised compared to other conclusions.

RECOMMENDATIONS

Strengthen the centre to drive policy coherency and cross-system policymaking capacity

Consider case for National Strategy Council with a long-term remit for decision-making on cross-cutting issues to address the imbalance in the formality of decision-making across security and economic issues

Assign clear accountability for implementation of agenda to strengthen policymaking capability

The importance of strong structures, especially for coordination, was a consistent theme in the Fellowship's engagement with civil servants. At the same time, other countries pointed to the UK's structures for coordination as an area of comparative advantage and of international best practice.

Organisational structures

The Fellowship is cautious about prescribing a certain structural approach. This is partly because to a degree good systems should be possible with a range of different structural approaches. It is partly also because the form depends on judgements on political accountability, which are beyond the scope of its inquiry.

That said, the findings of the inquiry do point to a strengthening of central functions to support a

systematic strategy for strengthening policymaking capability. In particular for:

- **ensuring coherence and not just coordination of policy**, necessary to enable the effective reconciliation of interests across economic, security, domestic and international policy to deliver policy choices that aren't simply zero-sum. This implies a different approach to the traditional conception of a 'secretariat', with more emphasis on an activist approach to ensuring coherence than neutral brokering;
- **embedding data driven information and insight into decision-making**, with any strengthening of assessment and analysis arrangements aligned with this function (see 'Information' above);
- **overseeing and executing international engagement**, necessary given the breadth of international dynamics across traditionally domestic issues; and
- **driving implementation of changes to strengthen cross-system capability**, needed because too often such agendas lose momentum too quickly. The 'secretariat' functions for policy coordination and coherency should be explicitly linked to this corporate function.

As with the Fellowship's recommendations on information and business, these steps could be achieved in a number of different ways. It has focused on the functions of the centre, not because the system structures are not important, but because an effective core is critical to wider system effectiveness. The Fellowship looked at a department-led cross-system approach, such as that for counter-terrorism led by the Home Office, which is now well established and widely seen by stakeholders as effective, despite the cross-system complexity (see also 'Systems' and CONTEST). The lead department in this case would be either HM Treasury or the Department for Business and Trade. The Fellowship considers there is a case for such an approach, especially as economic security becomes more established as a policymaking approach. However, there was strong feedback from engagement that, at least at this stage, these arrangements should sit at the centre in Cabinet Office, with policy leadership from departments. On balance the Fellowship agrees, principally given the contested nature of agenda and interaction with core political priorities.

Whatever the structural arrangements, a core feature should be ensuring there is clear accountability at officials level for overseeing the implementation of the agenda for strengthening policymaking capability.

Decision-making structures

As set out in the Insight section, the Fellowship has found an imbalance in the formality of economic and security decision-making structures, meaning that emerging issues relating to both have been approached through the structures of the latter. This needs to be addressed to both ensure different interests are appropriately captured, and that processes are seen as sufficiently accessible and appropriately balanced by those representing different interests. While economic policymakers, including HM Treasury as an institution, have traditionally preferred the relative informality in structure of some aspects of economic policymaking, the Fellowship considers the dynamics set out in this report reinforces that all interests in the policymaking process would be served by addressing this imbalance.

Again, this could be achieved in a number of different ways. Arrangements have already evolved and addressed these imbalances to some degree. The UK's formal decision-making structures include a dedicated sub-committee of the National Security Council on economic security, chaired by the Deputy Prime Minister. The role of this committee could be strengthened further, including with expanded arrangements for cross-domain assessment reporting to it.

the NSC but nothing equivalent on economics." - UK senior policy-maker

An alternative would be to develop mechanisms for joint meetings of committees and Councils across different domains, underpinned by clear ex-ante presumption about the government's principles for when such joint arrangements should be used. A variant, which would more clearly address the imbalance in relative formality, would be to establish a National Economic Council alongside the NSC, with a mechanism for a joint formation. A further alternative would be to establish a National Strategy Council sitting across economic, security and other interests, and with a specific remit for deciding long-term cross-cutting strategy. This would avoid the risk of separate economic and security bodies reinforcing distinct domains, and also strengthen institutional incentives for a longer-term horizon in policymaking, but would add to the complexity of structures. Again, the best approach will depend in part on wider choices about structures for decision-making beyond the scope of the Fellowship's inquiry. The critical objective for any approach should be ensuring sufficient Ministerial accountability and ensuring a platform for genuinely integrated decision-making.

"It's strange how formal we are on security, but not on business and the economy. You have

Postscript

While the Fellowship's conclusions seek to address the most significant findings from its inquiry, they also aim to open the door for further discussion and interpretation. The Fellowship recognises that the nature of the long-term challenge requires flexibility in its approach and encourages a culture of continuous improvement across all areas for the future.

Many of the Fellowship's more practical proposals are for policymakers to pick up and consider, and it hopes this report will be useful for that.

In other areas, the Fellowship has identified potential priorities for further research, especially developing intellectual frameworks that capture different conceptions of risk across economic and security domains. The Fellowship found many innovative sources of data, pioneered by academics, especially useful for its inquiry and it hopes such innovation continues.

Finally, the Fellowship's model of bringing together policy practitioners in an academic setting and of combining historical analysis and expert perspective has been critical in enabling it to conduct its inquiry. It hopes it is a model that can be developed further through future Fellowships.