Bringing Security and Economics Together in the National Interest

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Thank you very much for the invitation today to speak at this timely RIETI conference on bringing economics and security together in the national interest. I will talk through this proposition in three parts. First, I will discuss some changes in the world, and the complex challenges we face. Second, I'll outline some principles and strategies for dealing with these challenges. Third, I will suggest some institutional changes at the national and regional level that can support implementing these principles and strategies.

1. Recent events, changes and challenges

The world looks a particularly messy place.

Looking at the economics, we are still recovering from the global financial crisis. Global growth is expected to stay around its average of the past 40 years at 3½ per cent, but the risks are mostly negative, big and correlated with each other. There is significant debt overhang and balance sheet distortion in the government, corporate or household sector in many major economies. Monetary policy is very loose and new initiatives severely constrained. Trade and currency wars are erupting. Risks are high and growing in many financial sectors. Poor governance and market distortions constrain economic development in many emerging markets. Populist winner-take-all nationalism has taken root in some major G20 countries, notably the United States, China, Brazil, Russia, India, Turkey and the United Kingdom. Security tensions have deepened, especially between the United States and China with that relationship now characterised as one of strategic competition. Overlaid on all this is a weakening of global economic frameworks and institutions for economic cooperation, led by the United States in, for example, trade, climate change and international monetary arrangements. It can't be assumed that the United States will revert to its role as protector of the rules-based international order: the factors that have created US populist nationalism are likely to persist, as suggested by the expected decline in US per capita economic growth from 2.2 per cent in 2018 to 1.2 per cent in 2020 and 0.9 per cent in 2024. There has, too, been a pronounced decline in trust in public institutions in the west. There is widespread disillusion with markets and business which are seen to serve their own interests rather than consumers and people. Regional and global safety nets are inadequate to deal with a future global financial crisis, and it is hard to see the same global political and institutional resolve to deal with such a crisis now that we saw in 2008: the G20, let alone the G7 and BRICS, is not what it once was.

Into this mix, security risks are rising. The Middle East is unstable, the Korean peninsula uncertain, Russia and China assertive, the United States volatile and unpredictable, non-state terror risks from extremist movements continuing, global efforts to contain nuclear and chemical proliferation weaker, and cyber risks growing. Trust between nation states is deteriorating.

Technological change has introduced new mechanisms by which malicious actors can disrupt or damage societies and economies. The digital and data industrial revolution offers great opportunity

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and promise in better products, services and delivery for business, government and non-for-profit institutions. It disrupts firms, sectors and the economy – much of which is valuable for people and can be a force for economic and social inclusion – but it poses risks in market concentration and especially to privacy and security. Quantum computing, machine learning, big data and 5G are radically transforming most domains of human activity– from the way people interact with each other and obtain information and learn, to goods and services and the way firms and markets operate, to defence and security. The concern is that digital transformation opens economies and societies to cyber penetration, disruption and attack by state and non-actors, sometimes characterised as weaponising all forms of economic and social interaction. Put into the broader context of changing relations between the major powers, the digital economy is yet another place where US-China strategic competition plays out. The economic and social price of this could be fragmentation of markets and frameworks, exclusion, higher costs, less innovation and significantly lower economic growth, development and prosperity.

For countries where the relationship with the United States and China both really matter, like Australia and Japan, these developments are sometimes stated as forcing a binary choice between economics and security, between China and the United States. This framing does not help to provide countries like ours with enduring solutions that are in our individual national interest.

In the first instance, it oversimplifies the problem. Yes, China is assertive militarily, aggressive in its use of cyber and uses political language and style that sits oddly with our own. But its interests are also served by avoiding conflict, it is politically and socially a lot more complex than some commentators assert, it has committed to core parts of the rules-based global order, and it is a very big country in the region in which we live – China is here to stay and we can't just move away. China's prosperity and stability is a bedrock of our prosperity, national power and security. The United States is not just the leading global and regional military power but also an economic powerhouse of ideas, technology and innovation. It really matters to countries like Australia and Japan. Yet the withdrawal of US leadership from global norms and institutions, trashing of the WTO, and rejection of basic principles of openness, predictability and some element of fairness as the basis of international interaction is shocking and counsels caution in relying on it alone or too much.

Moreover, binary choice does not reduce security risks, it increases them because it puts us all into a corner, reduces compromise and the possibility of finding a balance, and in so doing raises the prospect of conflict.

2. Principles and strategies to deliver prosperity and security

This is not a pretty picture. But it is certainly not a cause for despair and isolation. **Two principles** can help guide a way through.

Let's start by going back to what we mean by the national interest. The **national interest has three components – security, prosperity and social wellbeing (or social harmony and cohesion) – and they should always be part of framing the problem and solutions**. All three matter. More than ever, they reinforce each other. Security underpins prosperity, prosperity pays for power and security, and social harmony reduces economic and security risks.

It is worth noting the specific reference to three rather than two factors – adding social wellbeing to prosperity and security. The debate is typically framed around how to balance economic and security interests. The social dimension is not often discussed but it is essential and too often overlooked. The people-to-people component of international relations really matters, and broad-based, open and warm people-to-people links create a strong political incentive for governments to find balance in their relations with others. At a national level, social cohesion and harmony are important domestic policy objectives. In a country where immigration is so important, like Australia, ensuring that all people have a sense that they belong to the nation matters. Talk of 'China as a threat' is easily personalised and Chinese-Australians – about 1.2 million people or 5 per cent of the population – hear themselves being described as a threat and their loyalty questioned. Where there is concern about foreign influence, alienating key parts of the population makes the problem worse, not better, and undermines a key source of influence back to China about Australian values and priorities.

The next principle is to set out clearly what are the **risks to the national interest in its three dimensions and identify practical ways to mitigate them**. Risks can affect security, prosperity and social wellbeing. And the mitigations can be found by thinking beyond a single domain.

As a general proposition, it is in a country's interest that countries that pose a security risk to it have other strong interests to balance, effectively raising the cost of conflict and creating an incentive to find an enduring solution.

Mitigations to a security risk might lie in the economic or social domains. For example, strengthening domestic economic governance, market systems and people-to-people connections support cooperation rather than confrontation. Many of these actions not only help mitigate security risk but they also mitigate the economic and social risks outlined above and support prosperity and social wellbeing in their own right. For example, markets that are more competitive and have greater integrity are more likely to innovate in quality goods and services and be more focused on people – which, as Adam Smith pointed out in *The Wealth of Nations*, is the whole purpose of markets – and so supports productivity, improves resilience, and shares prosperity across society.

Defence and security are public goods typically provided by governments. Risk mitigation, in contrast, need not be directly provided by governments. Indeed, the actions of other parts of society—especially business and civil society—can help mitigate risk over time and can be more effective in doing so than governments. The responsibility of government is not to manage risk directly itself but enable and create incentives for others to maximise the three elements of the national interest and mitigate risks. This is typically achieved by strong domestic laws, markets and regulatory and integrity governance supported by effective monitoring, compliance and systems for dealing with breaches.

Let's move now to consider three **applied examples or strategies to implement these principles**.

The first is around **infrastructure**. There are huge infrastructure needs across Asia and the Pacific, both within economies and between them. The Asian Development Bank estimates that developing Asia needs investment of US$26 trillion in infrastructure to 2030, and estimates for APEC and India total as much as US$40 trillion by 2040, mostly in roads and energy. The impact of infrastructure on internal and external connectivity and on economic and social development is profound, and everyone is staggered by the size of the need.

Yet there is growing tension between the major powers about strategic objectives of donors, particularly concern in the security community that China is using the Belt and Road Initiative as a strategic play to gain leverage over governments and acquire critical infrastructure, especially in cases when countries cannot repay debt. It helps to frame this debate from the perspective of the recipient country. Simply refusing foreign investment deprives the recipient of what might be economic and social infrastructure important for its prosperity and social cohesion. It deprives China of the opportunity to support others' development commensurate with its economic size and power and, as a major trading country, its own deep interest in a stable and prosperous world. And framing regional infrastructure primarily through the lens of US-China strategic competition risks freezing infrastructure funding and investment from private sources and nobbling cooperation within multilateral development banks – all to the significant detriment of the recipient country.

All donor countries use aid and financial assistance as a tool of foreign policy, so the interest of the recipient country is best served by engaging with a variety of donors and organisations (intermediated through a key multilateral development agency when it is a small country) so that it is not hostage to dependence on a single large donor. Meanwhile, strong governance—including objective economic and social cost-benefit analysis, competitive, open and non-discriminatory bidding, and independent dispute resolution—are essential tools to secure the benefits of the investment. The standard toolkit of international and development economics can help allay security concerns, as well as help lock in economic and social benefits. Japan's approach of working case-by-case with China on priority infrastructure investments in Asia and the Pacific provides a practical and effective way to lift governance, manage risks and deliver outcomes.

The second applied example is **foreign investment** and the role of foreign firms in the domestic economy more generally. There is a huge bank of empirical and analytical work on the benefits of open investment and the importance of foreign investment to domestic innovation, economic growth and jobs. Yet there are also concerns that such investment can be used against a country, to gain leverage over a government. As in the debate about the Belt and Road Initiative, much of this is focussed on China. The security concern is threefold: that foreign ownership of domestic assets renders them more liable to be used by the foreign power, including by enabling cyber attack on those assets; that China is quick to use economic assets as a political tool in its dealings with others, as shown by the fear that China would withhold crucial rare earths from Japan in 2010; and that changes requiring Chinese firms and citizens to cooperate with Chinese intelligence agencies and to have Communist Party cells in management in private companies effectively render even private entities instruments of the State. From this perspective, foreign investment, especially from China, is seen as potentially undermining national sovereignty, particularly as US-China strategic competition rises.

Let's look at each of these elements in light of the principles set out above. If security risks are changing, it is important to keep front of mind just how important an open investment regime and market-based economic system is to sustaining innovation, growth and development. Closing borders and markets destroys economies and the source of their power. The better approach is to identify risks and workable risk mitigation to minimise security risks and maximise opportunities for prosperity.

The idea that foreign-owned assets can be used against a country is hardly new.

The beauty of foreign investment is that both countries have an incentive to make the asset work and be profitable. China has a powerful economic and political incentive not to misuse its assets, including foreign assets. Why would it want to waste its wealth and opportunity for its own broad-based economic development by creating assets that it would lose in a serious confrontation? The physical assets can't be repatriated to China in such an event; they would be lost and its commercial reputation destroyed. There is an overriding incentive to make the assets work. A good example in Australia of how foreign participation in a controversial sector has helped stabilise a market is the live cattle export industry: Indonesian participation in ownership of Australian cattle farms used for live exports has reduced Indonesia's incentive to impose lower quotas or import bans when Australia-Indonesia relations have been difficult; foreign investment has made the sector more stable and both countries benefit directly from the exports and imports.

There is concern that foreign ownership increases cyber risk. Cyber risk is serious and one of the greatest risks in a digital world for business, universities, not-for-profit bodies and governments. Those risks come from both government and non-government actors. The Chinese government, directly or indirectly, is often mentioned in the media as one of a group of significant state players. In thinking about cyber risk in the context of foreign investment, understanding the risk matters. Ownership is not the fulcrum of cyber risk: cyber risk matters regardless of ownership and focusing on ownership itself does not resolve cyber risk. Controlling ownership is not the primary general instrument to deal with this threat and is not generally the issue to focus on in addressing cyber risk.

Cyber risk can be reduced but not eliminated. Risk mitigation is varied. Risk mitigation includes strong defences in firms, organisations and sectors against cyber-attacks. Strong internal defences against cyber attack vary between the type of entity and sector, and typically include programs or practices that control or limit access to devices, computers and technology. It can also include how technology is used: in the energy sector, for example, there is a focus on segmenting parts of the energy system to limit the spread of failure following an attack.

Market structure, too, matters for mitigation of risks to both security and prosperity. The more participants and the more diverse the structure of the market, the lower the risk associated with any one firm. From this perspective, policies to encourage product innovation and the creation of new firms, along with policies and laws to protect market contestability, help mitigate security risks and improve economic outcomes. The debate about foreign ownership of 5G networks and digital security risk might be different, for example, if the 5G sector was competitive and diverse, rather than concentrated in a small number of highly integrated firms. This is a good topic to explore further, including between Australia and Japan.

Effective risk mitigation requires domestic enforcement of strong laws against cyber-attacks, including those aimed at obtaining sensitive data on individuals. These laws include making cyber penetration and attacks illegal and punishable with specific consequences for the firms and individuals involved, defining digital property rights (including of data about people) and protecting privacy and constraining the use of data obtained through a privacy breach. There are concerns that foreign firms, for example, may be particularly susceptible to theft of personal data, including information about a person's health, finances or behaviour that could be used to coerce or embarrass them. Having a clear legal framework on data privacy creates a domestic legal structure in which foreign firms are expected to operate, and penalties and practices that apply in the case of breach. The primary risk mitigation is the cyber defence of the firm, buttressed by laws and penalties for firms that breach confidentiality or use illegally obtained data. Given that risk can only be reduced and not eliminated, risk mitigation includes having enforceable frameworks in place that address breaches and protect the privacy of the people affected, such as limiting the public naming of people and use of data obtained illegally, even when the breach is by others. A good example is not allowing insurance companies and others to use health information made public by an illegal breach of privacy.

One last observation about cyber risk. We are in a different world in terms of cyber attack by large state actors. Analogous to the nuclear arms race, the cyber capabilities of the major powers have most probably reached the stage where a cyber-attack by one would lead to a cyber-attack by the other. Mutually assured digital destruction (MADD) changes the risk of cyber-attacks between the major powers and their allies outside of explicit war. Ensuring countries' own defensive and offensive cyber capability may create a deterrent to overt cyber attacks by state actors.

To return to the point at the start of this section on foreign investment, there are two further points in public commentary about China that arise in the context of foreign investment.

The first is that China may be quick to use economic dependence as an instrument of foreign policy, as in the case of limiting rare earths exports to Japan in 2010. China's decision was challenged successfully by the United States, Japan and the European Union in the WTO and upheld on appeal, with China accepting and implementing the decision. While countries do include economic sanctions in their foreign-policy toolkit at some tipping point, the instance offers some useful insight. The initial action by China led buyers of rare earths to diversify supply chains and innovate with technology to reduce their reliance – a classic case of how flexible markets respond to events and can help manage risk. It highlights, too, the importance of the existence and use of international legal frameworks to defend property and market rights. While China's reputation as a stable commercial partner was damaged by the initial action, China also followed the rule of law by following the WTO ruling.

The second is the change in the Intelligence Law and role of the Communist Party in the management of private firms. These changes mark the assertion of central political control in Chinese commercial life and of the primacy of the state. Ultimately, their material rather than symbolic impact depends not on the laws or requirements themselves but how they are used and applied in practice, even if this is by its nature a hard thing to judge. In terms of how countries like Australia and Japan respond, it is appropriate to be clear about our own legal frameworks, that foreign firms which operate in own jurisdiction do so under domestic law, that domestic law has strong, enforceable and independent commercial and market integrity and privacy provisions, and that significant penalties exist for breach of these laws. Again, more fundamentally, the more diverse and competitive the structure of the domestic market, the more difficult it is for any one firm, foreign or otherwise, to exert influence.

The third example is applying the principles to **dual-use technology**.

It is widely accepted among economists that, to quote Paul Krugman, "Productivity isn't everything, but, in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker." There is less agreement about what lifts productivity but the largely agreed factors include improvements in technology, know-how and capital, employee skills and learning, and the dynamism of firms. For economists, new, open and experimental use of technology is synonymous with economic growth. In the security world, being at the technology frontier matters enormously to defence and intelligence capability and directly being able to manage long-term security risk. Many elements of digital technology have security and commercial applications – so-called dual-use technology. Technology is a primary determinant of both economic and military advance and an active playground for US-China strategic competition.

How do countries like Australia and Japan balance their interests in technology? In terms of the principles outlined above, the first point is that both countries have fundamental economic and security interests in technology. A viable and enduring solution is one that finds some balance between them and eschews solutions in either the economics-only corner or the security-only corner. Countries have grappled with dual-use technology for millennia – knives, ships and, more recently, the jet engine have all had dual security and economic uses, and the balance has been found in enabling both, protecting specific military applications, and continually innovating to compete for the lead.

Table 1: International Payments and Receipts for Technology, US$ billion current prices

	2005		2010		2015	
	payments	**receipts**	**payments**	**receipts**	**payments**	**receipts**
Australia	**3.4**	2.7	**7.3**	4.6	**8.0**	4.4
Belgium	5.7	**6.9**	10.0	**11.8**	17.5	**17.8**
Denmark	3.3	**4.6**	5.2	**6.4**	6.0	**7.7**
Finland	**4.6**	3.6	7.8	**9.5**	5.0	**10.8**
Germany	29.1	**31.4**	45.2	**58.2**	53.7	**71.8**
Japan	6.4	**18.4**	6.0	**27.8**	5.0	**32.6**
Korea	**4.5**	1.6	**10.2**	3.3	**16.4**	10.4
Netherlands	17.3	**19.4**	29.4*	**40.0***	50.2	**56.3**
Sweden	7.3	**9.8**	9.8	**17.8**	10.1	**28.0**
Switzerland	**13.9**	11.6	**21.2**	20.8	**34.0**	30.3
UK	13.9	**29.0**	18.4	**31.1**	21.3	**41.1**
USA	31.8	**74.8**	69.6	**100.6**	88.9	**130.8**

Bold indicates which of payment and receipt is larger; * 2011. Source: Main Science and Technology Indicators: Vol 2018/1, © OECD 2018

The idea that general access to technology should be limited or closed because it can be used for both commercial and military purposes is an extreme response with potentially enormous economic costs and potentially little impact on mitigating security risks. It is worth observing just how essential access to technology and open markets are to prosperity. Australia is a small producer and is a net importer of technology, while Japan is a moderately sized producer and net exporter (Table 1). In a risk-based framework, the economic premium for Australia is on enabling imports of technology and ideas, building networks, and staying open and connected; for Japan, the economic premium is protecting intellectual property and access to overseas markets. In a risk-based framework, the security strategy for both is to restrict those technologies that have an overt defence application. Intelligent risk management, for example, tightly guards weapons and intelligence applications of quantum computing and machine learning, but not quantum computing and machine learning in general. Other countries, notably the United States and China, lead these technologies, and they are both important partners in technology transfer to technology importers like Australia.

3. Strengthening national and international institutions to support the national interest

Good institutional design does not solve the economic, security and social challenges that countries face but it can provide a structure in which to identify, assess and determine what is in a country's national interest and to advance shared interests with other countries.

There are two components to thinking about **strengthening national institutions**.

The first is ensuring that government has all the perspectives in mind, enables contestability of views, and ultimately brings the economic, security and social dimensions together coherently and effectively in forming its assessment, strategy and actions. The heart of Australian and Japanese government decision making is the Cabinet, led by the Prime Minister and supported by specialist Cabinet Committees of a subset of Ministers and independent and expert advice from the public service led by the Prime Minister's department. All these elements are important and essential.

It is worthwhile asking whether the habits of thinking and traditional support structures are still fit for purpose. The tradition in both countries has been largely to separate security, economic and social considerations in separate Cabinet Committees and administrative and bureaucratic structures, often with their own culture and language, priorities, and view of the world.

In Australia, for example, security has been the domain of the National Security Committee, with – rightly – tightly controlled secrecy and membership dominated by the defence, intelligence and foreign relations departments and agencies (noting that the Treasurer and the head of the Treasury department are present). It is timely to ask whether the wider national interest, with broader ministerial and administrative membership, is better suited to address issues that require a more integrated strategic approach. This could include a Strategic Oversight Cabinet Committee of senior security, economic and social policy ministers, led by the Prime Minister, looking, for example, at the issues outlined above on infrastructure, foreign investment and dual-use technology. The National Security Committee should retain responsibility for specific military, security and intelligence strategies and decisions.

The Cabinet could be better supported by bureaucratic arrangements that focus on bringing views together and exploring integrated solutions to be considered by the government. At the very least, the role of the Department of the Prime Minister and Cabinet could be strengthened by creating an integrated strategy office or unit in that department, to authoritatively bring together afresh and on an equal basis the various perspectives and where solutions may lie. It is not enough to just add a security unit in Treasury or an economic unit in security or external affairs departments: these units do help their department understand issues but they typically reflect the culture and insight of the home department and are not effective in finding integrated solutions. For example, the risk of a security unit in Treasury is that security is just an economic externality for someone else to fix; the risk of an economics unit in foreign and home affairs departments is that economics becomes geonomics, a tool of statecraft and how to use markets as a weapon (which ultimately undermines prosperity). Public servants should be encouraged to move between the security, economic and social policy domains, to gain a broader sense of the nation's interests and to have extensive contacts and networks across the bureaucracy.

It is worth asking whether the tools of analysis can be improved in informing integrated strategy. Scenario analysis with a wide range of participants is a useful way to frame risk and look for solutions. Singapore stands out an as an example of a country that uses scenario analysis well in informing integrated strategic policy by its Cabinet. These exercises bring insights into the global interplay of forces in in the domains of the economy (technological change and the impact of data and digitisation, productivity and economic inclusion), security (the multipolar order, non-conforming nations and proliferation) and society (trust in institutions, belonging and social media). This analytical framework challenges conventional habits of thinking, strengthens connections and relationships between the different domains, and supports integrated strategic thinking.

Consider now how **international institutions and frameworks can be strengthened**.

International cooperation is not an act of national weakness. Speaking from my personal experience in G20 and APEC from the Asian financial crisis to the aftermath of the global financial crisis, no country or economy has ever approached those forums with anything but their own national interest and objectives at the heart of everything decided in each forum. What has been apparent in times of international economic and financial stress is that collective action and cooperation is a common interest of countries, and that the individual interest of countries has been served by frameworks, rules and institutions that support well-regulated, transparent and open markets and business. Finding the shared common interest among countries is not an easy exercise.

What does this mean for countries like Australia and Japan at a time of rising nationalist populism, US-China strategic competition, and the imperative of integrating economic, security and social dimensions of the national interest?

From the outset, it is important for countries which value international rules, frameworks and institutions to structure interaction between countries, and which value open, transparent and competitive markets as the basis of exchange between countries, to state and implement their views. There are some great examples of this. Australia has formally reaffirmed the importance of the Bretton Woods institutions. There has been great collective action and leadership by countries across Asia and the Pacific to reform and open up their trade and investment, despite the withdrawal of the United States from the Trans-Pacific Partnership in January 2017. These include the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) signed by 11 countries in December 2018 and the Regional Comprehensive Partnership (RCEP) agreed by 15 countries in November 2019 for signature into law in 2020. The CPTPP is open to the United States (and others), and RCEP is open to India, to join if and when they see fit.

These developments are positive and instructive. They show that countries can determine their own destiny, even when circumstances are difficult or change. While the change in US posture on economic and security relations and the rise in US-China strategic competition really do complicate life, they do not have to stop other countries from doing what they can to strengthen economic rules, open their own markets, and broaden their relationship with China. Indonesia, Japan and Australia, among others, are providing leadership in Asia and the Pacific.

These developments provide a good basis to go further and more strategically use regional forums and institutions which include both the United States and China. APEC offers some real opportunities.

As mentioned earlier, **infrastructure** needs across the region are massive but action is floundering. APEC is a good place for members to set out their individual priority infrastructure needs, commit to (not just note) key guiding principles around transparency and governance, commit to reform a big domestic obstacle to infrastructure investment, engage directly with private investors and multilateral lenders, and lift domestic capacity of developing economies. This agenda addresses a core economic weakness in the region and helps mitigate both economic and security risks.

Think too about the deteriorating **global financial safety net**, where financial crisis prevention and mitigation arrangements have not kept pace with rising capital flows and growing economies, liquidity arrangements (such as central bank swaps) have narrowed, and a key supplementary support mechanism, the New Arrangements to Borrow, is set to expire in November 2022 and should be both extended and increased. The key Asian regional mechanism, the ASEAN+3 Chiang Mai Initiative Multilateralization (CMIM), is too small and difficult to use, and indeed has never been used. A strong safety net is a good idea in its own right, but it also helps ease some of the concerns, whether founded or not, around 'debt trap diplomacy'. With a strong safety net comprising well governed and representative institutions, countries which have borrowed unsustainably need not fear losing strategic assets. Every irresponsible borrower has an irresponsible lender, and a well-functioning safety net would recognise that, giving a haircut to the lender and liquidity support to the borrower to allow debt financing to continue sustainably. A well-functioning safety net makes debt-trap diplomacy an uneconomical proposition, if it ever was. Historically, APEC Finance Ministers have not focused on the regional and global safety net but it is time now, given that the imperative Asia faces is to persuade the United States to restore and build the global financial safety net and ensure that regional and global mechanisms work together smoothly. Having a serious conversation in APEC about financial safety nets would be a break from the past and show that Asia is agile and strategic in its use of forums, informed by the past but not bound by the habits of the past.

Drawing on its informal connections with business (ABAC) and universities (PECC, ERIA and ABER) and its own informal style, APEC is a good place for ministers and officials to focus explicitly on ways to deliver prosperity, security and social wellbeing.

Conclusion

The world has changed. The challenge is to think broadly about all the dimensions of the national interest – being explicit about economic, security and social interests – identify the range of risks and think creatively, strategically and practically about how to mitigate risk. Siloes do not help in thinking about and addressing challenges in a genuinely strategic way. The real art of contemporary public policy is finding ways that deliver the most for prosperity, security and social wellbeing rather than treating them as competing alternatives to be traded off against each other.

In terms of domestic institutional design, it may help to refashion the way executive government approaches the complex problems it faces, with better integrated strategic advice from the administrative parts of government.

In terms of international relations, it is time for countries like Australia and Japan to engage rather than withdraw, as they have done so well in the CPTPP and RCEP trade and investment agreements. They should look for opportunities to work together and with others in the region, like Indonesia, and to engage directly and positively with the United States and China. The focus here is on practical and mutually beneficial steps to mitigate, rather than exacerbate, US–China strategic competition. There is a lot still to be gained by active bilateral and multilateral engagement.