

The Future is Free **- Only if Secure - Trade:** Causes and Effects

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Introduction

As the world enters a new era, economic and political relations between countries are changing. The global economic order will also have a share in this change. With that, geopolitics now plays a more essential role in the international economic order, and international trade practices specifically. Countries relate more diverse issues with national security and adopt more restrictive trade policies. Moreover, interconnectedness and weaponized

interdependence direct countries to impose more restrictions on trade. Lastly, countries abuse the national security concept for adopting restrictive trade policies with lesser objection. As a result, "free - only if secure - trade" awaits us in the future. That means the world will witness more restrictions for the sake of - more comprehensive - national security. However, even though there will be short-term benefits, a shift to free - only if secure - trade will come with several costs.



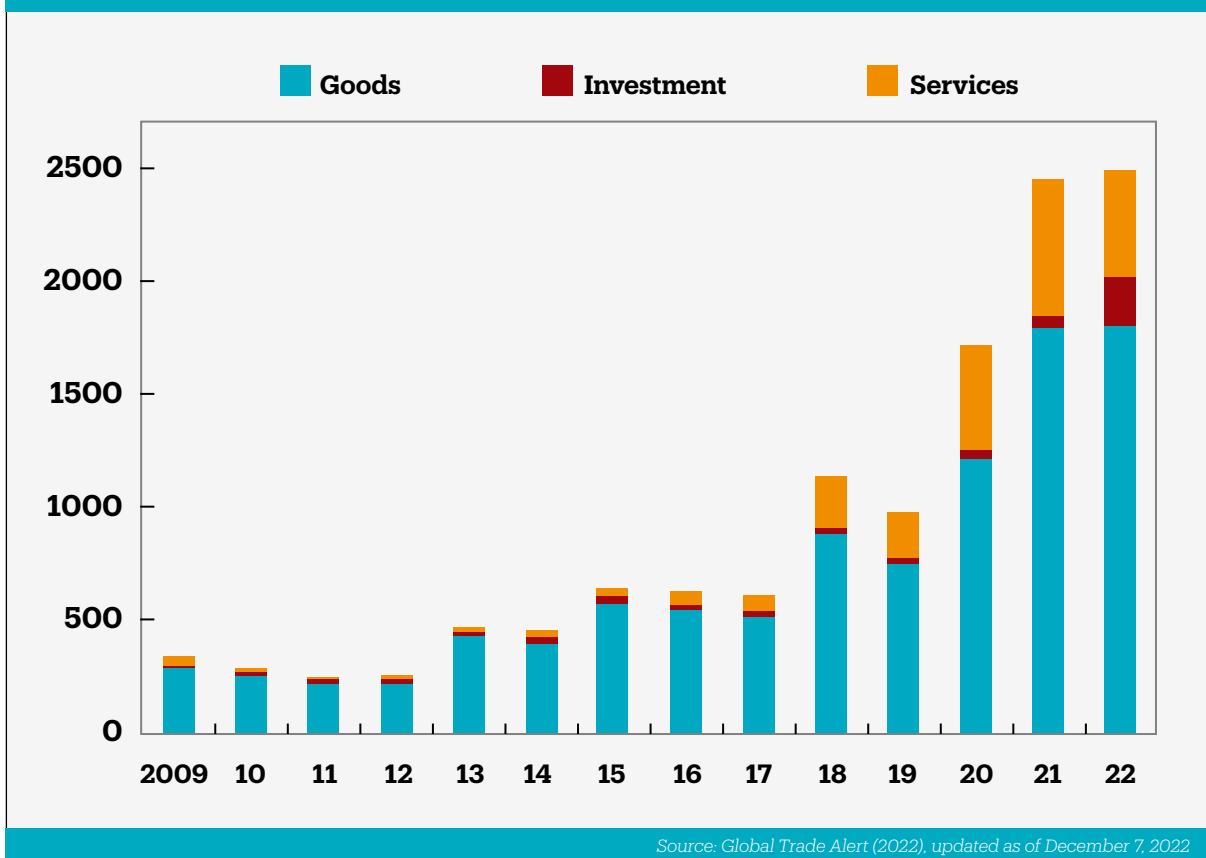
(Mehmet Emin Mengüarslan - Anadolu Agency)

1. Free - Only if Secure - Trade Past and Future

The future is free¹ - only if secure² - trade. That does not undermine the fact that the past patterns in trade were any different. Indeed, the past too was free - only if secure - trade. For example, in 1947, countries agreed on international trade law rules that enable them to protect their security within a system that promotes free trade. To be more specific, the General Agreement on Tariffs and Trade (GATT)³ while promoting the “reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment” (General Agreement on Tariffs and Trade, 1947, foreword), allowed members to justify their non-GATT compliant rules on national security grounds as set out in Article XXI. However, until recently, members did

not invoke this provision frequently. But now they do. This shows that things are changing in the relationship between trade and national security, and in the meaning of free - only if secure - trade. Free - only if secure - trade currently means limited trade with more restrictions compared to the past. The Global Trade Alert data, as cited by the IMF, shows (Figure 1) the increase in trade restrictions over the years (2022, as cited in IMF, 2023, p. 11). Moreover, different than in the past, due to rise in climate change concerns, and technological developments, secure trade now relates more to environmental, technological, and economic security, rather than focusing mainly on military security.

Figure 1: Trade Restrictions Imposed (Number)



¹ Free trade, in theory, means trade without any restrictions. However, in practice, it means trade without discrimination that targets lowering trade barriers.

² Secure trade means trading with others under conditions that do not threaten a country's own security.

³ GATT 1947 incorporated into GATT 1994, which is a component of the World Trade Organization Agreement.

2. Free – Only if Secure – Trade: Why?

2.1. Change in the Meaning of National Security

The future is “free – only if secure – trade” because national security became more important, and it now relates to more diverse policy issues. As a result, the meaning of secure trade has changed, and its scope widened. National security never had a precise definition, but in past it mainly revolved around military security. For example, Walter Lippmann, in his paper dated 1943, stated that when a nation's legitimate interests are not forced to be sacrificed in order to prevent war, it has security (Lippmann, 1943, p. 51). Accordingly, as soon as trading with others did not increase the risk of military confrontation, trade was usually deemed secure. Giving an alternative point of view,

regarding the risk of military confrontation, some scholars claimed that trading with others decreases the risk of military confrontation. Liberals claim that the benefits provided by economic interdependence and trade, such as domestic prosperity, lower the risk of war (Copeland, 1990, pp. 5-8). Because, due to trade benefits, interdependent states prefer peaceful trading over invading (Copeland, 1990, pp. 5-8). However, now, even though military security is still a crucial component of national security, it has definitely lost ground to concerns about economic, energy, and environmental security (Romm, 1993, p. 1). Today, even TikTok is a national security threat as FBI Director Chris Wray expresses (Kohli, 2022). In other words, the practice of national security has certainly broadened. As a result, now the trade is secure when it is not perceived as a threat to economic, energy-related, technological, and environmental interests in addition to military interests.



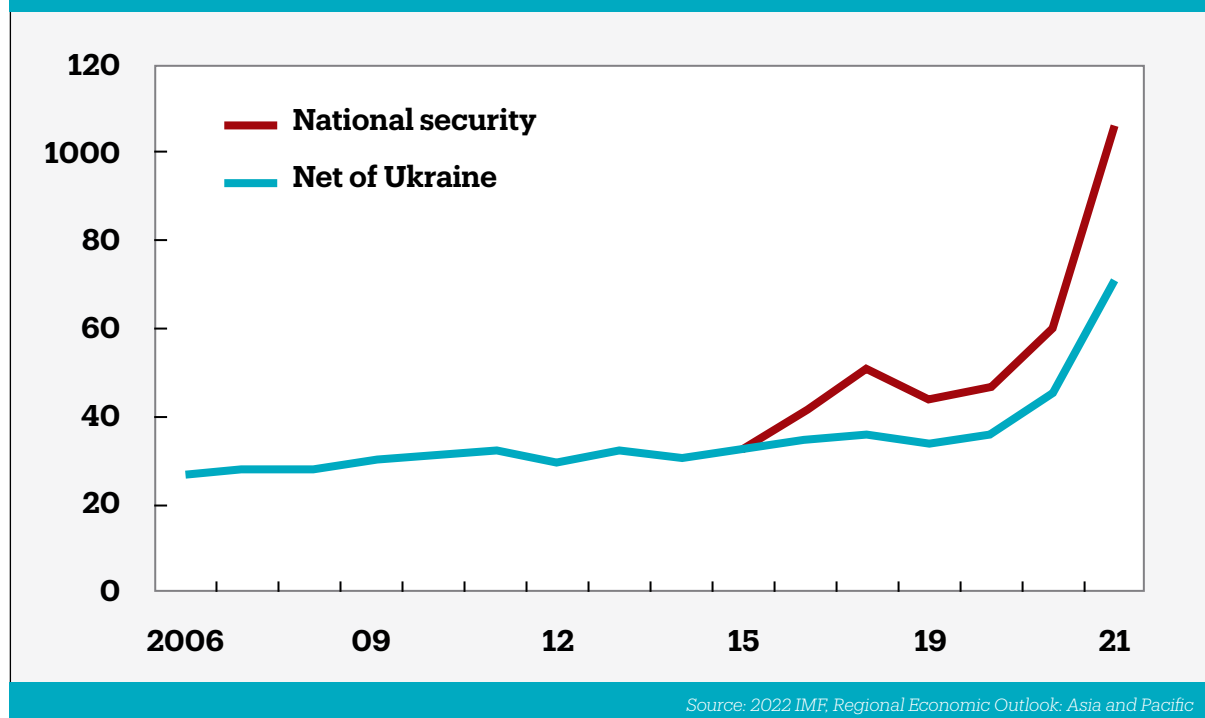
President Biden celebrates the Inflation Reduction Act. The Act covers several issues such as providing subsidies for electric vehicles assembled in the North America. The Act is criticized by many for including protectionist provisions. (Nathan Posner- Anadolu Agency)

2.2. The Rise in Restrictive Trade Policies

The widening of security's scope naturally narrowed free trade's scope. In other words, because of the rise in concerns over national security, countries started to impose more restrictive trade measures. National security related restrictive trade measures do not seem to fade away, on the contrary, they seem to become increasingly prevalent. Figure 2 below shows that restrictions motivated by national security concerns increased in 2020, according to the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions (2022, as cited in IMF, 2023, p. 11). Recent policies, too, prove the rise in restrictive trade measures. For example, President Biden signed into law the CHIPS and Science Act of 2022 with the aim of countering China and strengthening national security (The White House, 2022). The Act, for these purposes, prohibits incentive funds recipients to build new manufacturing capacity regarding some advanced

semiconductors in countries that are national security threats to the US. Similarly, countries started to prioritize friend-shoring policies over off-shoring policies. For instance, just recently, the German Finance Minister called for applying the principles of "friend-shoring" between the U.S. and the EU for Inflation Reduction Act⁴ related issues (Kowalcze and Tadeo, 2022). Friend-shoring policies decrease the number of countries that a country includes in a manufacturing process in a specific industry. Because, friend-shoring policies, to protect national security, aim at moving production sites only to trusted trade partner countries. Another example of broader security and narrower free trade is countries' rising invocation of GATT XXI in World Trade Organization (WTO) disputes. For several years, countries rarely invoked GATT XXI national security exception at the WTO to justify their trade restrictive measures, however, now there are several disputes involving national security (Pinchis-Paulsen, 2020, p. 111). All these show that free trade is not that free anymore. Now, free trade is more inclined to be concerned with security, and therefore be more restricted now and in the future.

Figure 2: National Security Mentioned in IMF AREAER



⁴ The Inflation Reduction Act of 2022 aims to fight inflation, invest in domestic energy production and manufacturing, and reduce carbon emissions. The Act generated controversy, especially with the EU, over the rules about providing tax credits for Electric Vehicles with final assembly in North America. For further information: https://www.democrats.senate.gov/imo/media/doc/inflation_reduction_act_one_page_summary.pdf

2.3. Interconnectedness

Today's world is highly interconnected, and this paves the way for free - only if secure - trade. In such an interconnected world, states realized that, with contribution of interconnectedness that free trade fuels, everything may have a huge impact on a state's security. Because of interdependence, an event or a natural disaster that occurs at the ends of the earth may severely impact people living in distances away. The Covid-19 pandemic is a compelling example of that. Because of the interconnectedness, especially the mobility of people and dependence on imports from other countries, the pandemic affected not only the origin country's security but all countries' security. Several people died and manufacturing stalled. What is worse, trade restrictions for the purposes of prioritizing a country's own people leveled up the threat to all other countries' national security. For instance, restrictions on the trade of personal protective equipment led to more people's infection and greater disruption to manufacturing. As another example regarding interconnectedness, Russia - Ukraine war impacted millions living in further away from the conflict zone. The war deteriorated several people's access to food. This led to more poverty, hunger, and instability. Such events increased countries' concerns over security and prompted them to shape their policies towards more restrictive trade policies and maintain free - only if secure - trade approach.

2.4. Weaponization of Interdependence

The risk of weaponization of interdependence that is fueled by free trade is another reason for the tendency towards free - only if secure - trade. States realized that networks can be purposefully weaponized to exploit vulnerabilities, and force policy change (Farrell and Newman, 2019). Russia's recent actions are an example of that. Following European countries' support to Ukraine in Russia - Ukraine war, Russia used European countries' energy dependence on its gas. Russia has already cut and threatened to cut more of its gas exports to European countries. As a result, European countries faced a high risk of blackouts and industrial manufacturing slowdowns. Sanctions are another example of weaponization. For example, the sanctions following Russia's invasion of

Ukraine had negative impacts on the Russian economy. Several multinational companies exited Russian market. Similarly, U.S. restrictions on chip exports to China put China in a commercially difficult position. Consequently, Chinese manufacturers are facing difficulties in accessing essential components for producing chips.

The realization about the impacts of weaponized interdependence, rooted the logic behind realist argument about the relation between war and trade to shape the understanding of threats to national security. Realists argue that free trade increases the risk of war, because of the fear of being cut off from or blackmailed by the imports of crucial goods during a crisis (Copeland, 1990, pp. 6-10). Today, it is not only about flow of goods, but also cross-border flows of money, information, and products that expose states to new dangers. It is not only about war, but also about other threats such as economic threats to a nation. In short, the risk of weaponization of interdependence, and fear of being cut off or blackmailed, changed countries' approach to free trade in a more restrictive manner and increased their focus on national security. As a result, free - only if secure - trade started to strongly establish itself in countries' trade policies.

2.5. Abusing the Concept of National Security

Abuse of the concept of national security will lead to free - only if secure - trade as well. To be "secure" covers both situations that are truly related to a state's national security and situations that are claimed to be so by a state even if it is not. Countries' trade restrictive policies for promoting their own interests such as protecting domestic industries are rising. As a result, countries are increasingly abusing the concept of national security to justify these measures. This is because, asserting self-judging national security⁵ as an excuse for trade restrictive measures is more valid than asserting a country's promotion of its own interests as an excuse. The US, as the country that shapes the global economic order, is an important example of that. The U.S. started to adopt more restrictive policies that contradict with the promotion of free trade. The Inflation Reduction Act and the U.S. tariffs on aluminum and steel imports are among several of the recent trade restrictive policies.⁶ There are various explicit and implicit motivations behind these policies. For example, Trump, apart from national

⁵ Several countries assert that a country itself may decide what constitutes a national security concern for itself. As a result, for these countries, even multinational organizations such as the WTO cannot interfere with a country's perception of threat to national security.

⁶ In 2018, Trump imposed tariffs on aluminium (10%) and steel (25%) from several countries, based on the Trade Expansion Act of 1962 (19 U.S.C. §1862) (For further information about the Section 232, read footnote 7). Upon that, the EU initiated dispute settlement proceedings at the WTO.

security reasons, asserted protecting the U.S. economy and jobs (Lester and Zhu, 2019, p. 5), forcing U.S. trade partners for negotiations (Mayeda, 2016), as well as combating unfair trade policies (The White House, 2018) as the reasons for tariffs on aluminum and steel imports. Moreover, it seems that the U.S. is particularly worried about China's rise in global economic order and building of more networks through its Belt and Road Initiative and technological advancement. This worries the U.S. because, the state with the most networks may determine the global policies (Slaughter, 2009, p. 95). As a result, the U.S. also employed measures such as the CHIPS Act, targeting China. Regardless of these varying motivations, and the nature of the policies, the U.S. increasingly asserts national

security as the main reason behind these measures. The rise in the number of Section 232⁷ investigations after Trump came to the Office supports that. Before the Trump administration, between 1963 – 2018, there were twenty-six Section 232 investigations, and the last investigation was in 2001 (Congressional Research Service, 2022, p. 1). After the start of his term, only in the Trump's term, there were eight Section 232 investigations (Congressional Research Service, 2022, p. 2). Since the U.S. has the impact to shape global economic order, and there are several countries that follow the U.S. discourse, the rising use (and abuse) of national security reasons as a justification for trade restrictions will lead the world towards free - only if secure - trade.

3. Free – Only if Secure – Trade: Benefits and Costs

Shift towards free - only if secure - trade has pros and cons in the long term and the short term. While in the short-term, benefits may prevail especially within a confine of a state; in the long term, costs are more likely to prevail. In the short-term, trade restrictions may increase the demand for locally produced goods in a specific sector. As a result, efforts may focus on increasing supply. This, in return, may help expanding domestic production to the benefit of owners, workers, and resource suppliers (Coughlin et. al, 1988, p. 15). Accordingly, job opportunities may be created for citizens. Because of creating more job opportunities, politicians may gain support of the voters. Moreover, protectionist policies may benefit a government, for instance, in the way of tariff revenues (Coughlin et. al, 1988, p. 15). Apart from all these, a state can achieve what it wants to achieve by employing a trade restrictive policy. For example, the U.S. may, to some extent, achieve what it wants to achieve with CHIPS Act 2022. For example, building manufacturing sites in the U.S. as per the CHIPS Act 2022 may introduce more resilient supply chains that are less affected by natural disasters and military conflict in East Asia (Kannan and Feldgoise, 2022, p.5).

Considering the long-term impacts, however, free - only if secure - trade will likely to be costly. This is because first, the shift towards free - only if secure - trade is happening by usually disregarding the rules-based international economic system. Countries are increasingly abusing

national security exceptions for justifying their non-GATT compliant trade measures. For example, the U.S. repeatedly invoked national security to justify its trade restrictions. Considering the U.S. challenge to WTO Appellate Body practices and member appointments, this is worrying (Pinchis-Paulsen, 2020, p. 120). Because such may lead to erosion of rules-based system, and this is risky. If one state, especially one of the most effective states disregards the rules, the others may easily do so. In that case, it is easier to slide back to the rules of jungle in international economic law. Secondly, the adjustment costs to free - only if secure - trade will be high. Because, for instance, building new production sites in a country, or in an ally country, will cost time and money. Moreover, in the long term, such a limited free trade might decrease the benefits of free trade. As Copeland argues, if states expect high future trade levels, they may continue peaceful trading without resorting to aggression (1990, p. 17). However, if contrary, aggression might be a more likely option (Copeland, 1990, p. 17). Trade has an impact on innovation through imports, exports, competition, trade in technology, and foreign direct investment (Kiryama, 2012, p. 4). Accordingly, limited trade may also decrease the development of innovation. Limited trade may lead to consumer losses and lower economic growth rates as well (Coughlin et. al, 1988, 25). Lastly, as a result of limited trade, low-income states and emerging market economies may lose knowledge spillovers (IMF, 2023, p. 4).

⁷ As explained by the Congressional Research Service, "Section 232 allows the President to impose import restrictions based on an investigation and affirmative determination by the Department of Commerce (Commerce) that certain imports threaten to impair U.S. national security". For further information: <https://sgp.fas.org/crs/misc/IF10667.pdf>



Russian President Vladimir Putin (R) and Chinese President Xi Jinping (L) attend the 2019 Saint Petersburg International Economic Forum (SPIEF-2019) at the Congress Hall of Congress Centre in Saint Petersburg, Russia on June 07, 2019. Both Russia and China are deemed national security threats by several countries. (Sefa Karacan- Anadolu Agency)

Conclusion

Free - only if secure - trade is a long-living concept, but recently its meaning has evolved and changed. Now, free - only if secure - trade means more security concerned and more restrictive trade. This adjustment in the meaning and shift towards future free - only if secure - trade are due to several reasons. First, the meaning of national security, and therefore secure trade has changed. National security, now, does not mainly relate to military security, but also relates to economic, energy, technological, and environmental security. As a result, secure trade also relates to these additional aspects of security. Second, partly because of change in the meaning of national security, countries adopt more trade-restrictive policies. The rise in invocation of GATT security exception, and friend-shoring practices prove that. Third, interconnectedness, and threats it pose to countries, as well as weaponized interdependence direct countries to adopt more restrictive trade policies. Lastly, countries have shown to have a tendency to abuse

the concept of national security to justify their unlawful trade restrictive policies where it suits their interests. As a result, free - only if secure - trade awaits us in the future.

Free - only if secure - trade will come with benefits in the short term and costs in the long term. In the short term, benefits will prevail, especially within a country. These benefits include increasing domestic production in specific sectors for the interest of owners and workers, creating more job opportunities, gaining political support, and governments' tax revenues and realizing certain policies. In the long term, however, costs will prevail. Free - only if secure - trade practices corrode international rules. Moreover, it comes with a high adjustment cost, and decreasing free trade benefits. Policies in line with free - only if secure - trade risk confrontation, decrease innovation, lead to consumer losses and lower economic growth rates, and decrease in knowledge spillovers.

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