

Ukraine forces debate on WTO and national security

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The WTO's credibility has been battered in recent years and Russia's invasion of Ukraine adds further stress on the organization. **As pressure mounts to address trade and security questions more deliberately, tremendous care should be taken** to pursue humanitarian outcomes without creating irreparable fissures in the global trade system.

Russia's invasion of Ukraine is likely to force a long **overdue discussion about what role, if any, security considerations should play in global trade governance.** The WTO is largely silent on security relations among its members, but it does contain several exceptions which provide members with wide latitude to take action, albeit on the basis of vaguely defined, self-judging national security interests.[1] As a practical matter, this means that one member could withdraw benefits and impose barriers or restrictions on another member in response to security-related concerns. **This is the basis on which members such as the US, the EU, and Japan have revoked Russia's Most Favored Nation (MFN) trade status.**

These provisions have rarely been utilized, largely because of the controversies and complexities they raise and the divisiveness their usage would create among WTO members. So far, the multilateral trade community has been content to take a "let sleeping dogs lie" approach to security and trade governance. In the wake of the Ukraine crisis, pressure will build to address trade and security questions more deliberately and clarify at least some of the ambiguities.

A small role for security considerations

As the debate unfolds, two divergent schools of thought are likely to emerge.

One school of thought believes that security considerations should play little, if any, role in trade governance. Attempting to infuse security considerations into trade institutions and trade governance more directly and proactively, proponents argue, will only kill the goose

that has laid the golden eggs. Opening the trade and security pandora's box will threaten globalization and trade interdependence – the primary drivers of peace, stability, and development for the past seven decades. According to this view, we will end up instead with an increasingly balkanized world in which conflict is more likely and potential development through trade has been sacrificed.

Mixing trade and security would also be strategically unwise. Limiting the ability of a country to participate in the global trade system on the basis of security concerns will only diminish that country's accountability to its partners and its incentive to cooperate. It will also rebound in the form of lower economic efficiencies and higher prices for the rest of the world.

Proponents of this view also point to a host of practical problems. Rendering judgment on security or military actions taken by its members is clearly beyond the competence and capability of the WTO. What criteria would be used and how would it be established? The WTO consists of 164 highly diverse members and operates on the basis of consensus. It is simply not plausible to expect members to agree on more explicitly defined criteria for judging military actions and on the subsequent application of those criteria for specific cases.

Inevitable intertwining of trade and security

For the other school of thought, it is entirely unrealistic to keep trade governance and security considerations separate. According to this view, we are living through a period of rising geostrategic rivalries, in which trade has moved to the forefront as a means to pursue or protect technological preeminence – and by extension, military capability. Trade also enables countries to accrue the national wealth required to forcefully project strategic interests onto the global stage. In some instances, trade has provided economic leverage that can be used to coerce trade partners on policy or geostrategic issues. With trade and security becoming increasingly intertwined, trade institutions and trade rules simply cannot afford to ignore the security side of the equation.

This perspective also has a philosophical and historical component. Some question whether it is morally acceptable to conduct “business as usual” in the WTO with a country that is actively using brutal military might to subjugate a fellow WTO member. Some note that the founding architects of the post-War trade system explicitly viewed the establishment of a rules-based trade system not merely in economic terms, but also to maintain peace and avoid a third world war.[2] From this point of view, trade governance is about more than just trade. It's about the promotion of liberal values and the peaceful resolution of disputes within a cooperative multilateral system, rather than through trade wars or literal wars. Averting our eyes from security issues allows one of the founding philosophical pillars of the rules-based trade system to be subverted.

What does this debate mean for the future of the WTO?

It is possible that the WTO emerges from this debate further marginalized. In this scenario, the trade and security debate only sharpens divisions and antagonisms among WTO

members and nothing productive emerges. With the WTO unable to reach consensus, countries increasingly conclude that unilateral action and self-selected trade groupings based on geostrategic and philosophical commonality are preferable.

The desire for further trade liberalization (especially in the US) continues to be lukewarm and these groupings take the form of “frameworks” rather than FTAs. They focus on establishing de facto ecosystems through common technical standards, joint R&D, cooperation on building resilient supply chains, and common approaches on carbon emissions, potentially including the creation of “carbon clubs.” And while the WTO remains stalled on rulemaking in key areas such as digital trade, self-selected trade blocs take the lead.

The WTO’s credibility has been battered in recent years and Russia’s invasion only highlights another area in which the organization is struggling for relevance. Countries increasingly see the need to move ahead on many issues outside the WTO. The organization will not disappear but it will likely continue to wither on the vine. If so, the post-War founding vision of a truly integrated global trade system based on a single set of rules, providing stability, and promoting peace, would slip further away.

Keep in mind what’s at stake

The crisis in Ukraine has understandably touched a raw nerve in societies around the world. The human desire to “do something” runs deep. At times like this, it will be important for policy makers to carefully consider their responses, especially when it comes to trade.

Despite the many shortcomings of the so-called rules-based global trade system, the economic development and interdependence it has helped create has been a primary driver of the relative peace and prosperity the world has enjoyed for seven decades.

As the international community looks for ways to alleviate the tragedy unfolding in Ukraine, trade will continue to be part of the discussion. Strong steps have already been taken.

Depending on how things unfold in Ukraine, more drastic steps are entirely possible. As options are considered, tremendous care should be taken to pursue the desired humanitarian objectives without creating irreparable fissures in the global trade system. Over time, such an outcome would produce its own set of tragic consequences.