AMERICAN INSTITUTE
FOR ECONOMIC RESEARCH

AIER Papers #02
July 15, 2024

A Free, Prosperous and Secure America

How Trade Liberalization Strengthens US National Security, and Economic Nationalism Undermines It

SAMUEL GREGG

The American Institute for Economic Research educates people on the value of personal freedom, free enterprise, property rights, limited government, and sound money. AIER's ongoing scientific research demonstrates the importance of these principles in advancing peace, prosperity, and human progress.

250 Division Street
PO Box 1000
Great Barrington, MA 01230
Telephone: 1-888-528-1216
Fax: 1-413-528-0103
info@aier.org

AIER is a 501(c)(3) Nonprofit registered in the U.S. under EIN: 04-2121305

Executive Summary

America has a long history of seeking access to global markets to buy and sell goods and services. Yet trade policy has always been intertwined with national security questions. They are notoriously difficult to separate from each other, as efforts to promote national security impact trade, while trade with other countries often has national security implications.

National security is regularly invoked in debates about American trade policy to justify economic nationalist policies. This has been a feature of policy discussions concerning the US-China relationship for a decade. Free traders have always acknowledged genuine national security concerns as constituting a legitimate exception to their commitment to trade liberalization. In a world of states marked by geopolitical rivalries, governments sometimes have no choice but to trade off particular benefits of trade to meet national security needs.

Notwithstanding that reality, this paper holds that free trade generally enhances US national security, while economic nationalist or neo-mercantilist policies tend to undermine it. Trade liberalization does not guarantee harmony between states. As the outbreak of World War I exemplifies, goods crossing borders do not rule out the possibility of war between countries that maintained relatively high levels of free trade with one another. Nonetheless, trade openness promotes US national security in two ways:

- First and foremost, it enhances the economic growth that allows America to resource its national security needs effectively.
- It facilitates — without guaranteeing — more peaceful relations between America and other states.

Economic nationalists' general preference for the state taking a very active role in trying to direct international trade is partly driven by what they consider to be free trade's negative consequences for US national security. They hold that trade liberalization 1) strengthens the economies of geopolitical rivals; 2) renders America more vulnerable to external shocks; 3) facilitates the transfer of technologies like semiconductors with dual civilian military uses to foreign companies, some of which are aligned with or owned by rival states; and 4) allows the same foreign businesses to acquire assets in US markets that could be used to undermine US national security.

This paper addresses these objections by illustrating that they are based on 1) faulty economic conceptions of the nature of trade between states; 2) insufficient appreciation of important facts concerning trade's significance for US national security; and 3) excessively broad conceptions of national security that end up undermining the economic and national security benefits of trade liberalization for America. Indeed, this paper maintains that economic nationalist and neo-mercantilist policies undercut America's national security by:

- Weakening the US economy's innovativeness, competitiveness, growth, and resilience.
- Generating unnecessary tensions with other states, including US allies.
- Diluting the meaning of national security.

Obviously, trade policy cannot be conducted in ways that ignore the real national security challenges facing America. States will always have to make trade-offs between the respective demands of a free trade agenda and the requirements of national security. Nevertheless, it is possible to address genuine national security concerns without unduly compromising the pursuit of trade liberalization.

KEY POINTS:

- In a world marked increasingly by geopolitical conflict, skepticism about free trade's compatibility with US national security has grown across the US political spectrum.
- Free trade enhances US national security by bolstering economic growth and diminishing tensions between America and other states.
- Economic nationalist and neo-mercantilist policies undermine US national security by weakening America's economy, alienating other states (including allies), and diluting the meaning of national security.
- National security concerns about trade liberalization's implications for supply-chains, dual-use technologies, and foreign investment can be addressed via policy frameworks consistent with a trade liberalization agenda.

Introduction

In today's arguments about the US economy, national security issues loom large. This is especially the case regarding debates about trade. Figures across the American political spectrum regularly invoke national security rationales for economic nationalist and neo-mercantilist policies,[1] particularly in debates about the United States's relationship with China since 2016.

Many initial responses to national security challenges assume an economic form. Trade sanctions are often used as a first-step national security tool to deter states from taking particular actions, or to compel states to take, or refrain from, specific courses of action.[2]

However, promoting and securing freer trade between states has also often been understood as a national security objective. Throughout the nineteenth century, the relatively open trade marking much of the global economy was underpinned, as the German economist Wilhelm Röpke pointed out, by the implicit guarantee of the *Pax Britannica* delivered by the Royal Navy's ability to keep the world's sea lanes free of bad state and private actors.[3] A similar train of thought shapes *Federalist* 10's insistence that as the "unequaled spirit of enterprise" in America inevitably spilled over into international commerce, the United States would need a federal navy to protect American shipping and trade.

Advancing the liberalization of international commerce was a feature of US trade policy after 1945. This was not pursued simply because of the economic benefits that progressively expanding wider access to global markets brought to America and Americans.

In the first place, growing and protecting ease of US access for foreign markets, initially with neighbors and allies and then beyond those spheres, was regarded as a means of boosting America's economic strength and thus America's ability to resource its national security needs and agenda.[5] Second, trade liberalization was understood by key US policymakers to be one means to lock Western European states into a US alliance against Communism and an expansionist Soviet Union.[6] Third, ever-widening trade exchanges decreased, it was believed, the probability of war between states and increased the likelihood of international cooperation. In 1947, for instance, President Harry Truman stated that "If the nations can agree to observe a code of conduct in international trade, they will cooperate more readily in international affairs. . . . It will provide an atmosphere congenial to the preservation of peace. As part of this program we have asked the other nations of the world to join with us in reducing barriers to trade."[7]

Such ideas were not new. Free trade's extra-economic benefits have been stressed by prominent free traders ranging from Adam Smith to Richard Cobden. The latter's famous slogan — "Free Trade, Peace, Goodwill Among Nations" — reflected his conviction that a global liberalization of trade would radically diminish military conflict between states. Following the USSR's breakup in 1991, considerable optimism prevailed well into the 2010s concerning free trade's capacity to help promote a rules-based international order and more peaceful world, thereby enhancing America's national security.

Such optimism is less apparent today. Geopolitical trends and the growth of US-China tensions from the mid-2010s onwards have emboldened those who believe that America's promotion of trade liberalization has contributed to China's emergence as a greater threat to America's national security. Specific events like supply-chain disruptions occasioned by policy responses to the COVID-19 pandemic have further facilitated doubts about the degree to which the US economy is integrated into global markets. These trends and events have magnified pressures upon policymakers to embrace interventionist trade policies in the name of enhancing US national security.

Underlying these questions is a tension between the requirements of a state's national security and the demands of free markets. Efficient markets deliver economic benefits to America and Americans. Maintaining national security, however, implies a political willingness to forego some such benefits to reduce national security threats to America. For example, products such as nuclear weapons technology are often deemed so critical for a state's national security that restrictions are placed on Americans' ability to sell them to foreigners in full awareness of the costs to economic efficiency and growth. States thus trade off the potential economic benefits that might have been realized through trading specific goods across borders in return for greater national security.

America's interests go beyond economic growth. But the enhanced growth of the US economy and other benefits delivered by liberalizing trade relations between America and the rest of the world are 1) important for the well-being of those same Americans that policies related to national security seek to protect and 2) boosts US national security.

The purpose of this paper is threefold. First, to outline how trade liberalization can advance US national security in an international arena marked by competition between states. Second, to illustrate how economic nationalist policies can undermine that same national security. Third, to show how specific concerns highlighted by economic nationalists and neo-mercantilists can be addressed via policy frameworks that do not unduly undermine a US trade liberalization agenda.

Before proceeding further, we need clear definitions of trade liberalization and national security. These allow us to distinguish real national security challenges from fictious ones, to understand the national security effects of trade policy, to identify the trade implications of national security policies, and to better grasp the calculus of trade-offs faced by policymakers as they navigate the demands of both trade liberalization and national security.

Free Trade and Trade Agreements

Trade liberalization is best defined by its immediate objective: the steady diminution of restrictions and barriers that inhibit, distort, or tax the ability of individuals and businesses to trade goods and services freely across the boundaries of sovereign states. The goal of such liberalization is to meet consumer wants and needs ever more efficiently.

The economic case for trade openness is an extension of traditional free market arguments to the international sphere. Increasing the size of a given market expands the division of labor, promotes greater specialization, helps individuals and companies better realize their respective comparative advantages, and intensifies competitive pressures. Greater competition encourages individuals and businesses to be more efficient. This creates wealth, namely the ability of individ-

The economic case for trade openness extends traditional free market arguments to the international sphere.

uals to satisfy their needs and wants. Even if the gain in wealth is not the same for all participants, all participants gain when they voluntarily participate in markets.

Through conditions of trade openness, US companies secure more reliable access to foreign markets where they can acquire dependable supplies of both finished goods and raw materials (not all of which are plentiful or readily available in America) that they need to produce many modern products at a cost lower than domestic sources. Such access also allows American companies to realize ever greater economies of scale of production through, for instance, utilizing cheaper labor in foreign countries. The same foreign markets contain millions of new consumers to whom American-made products can be sold, thereby enabling American businesses to expand their consumer base beyond the United States population.

So, too, foreign companies — and states — benefit from similar access to American markets. Those economic exchanges can form a basis for other commonalities of interest between the trading states, which may in turn have positive national security implications.

But how is trade liberalization pursued in practice? There have been cases of states liberalizing their trade unilaterally with the rest of the world, without assuming reciprocity by other states. The number of states that have done so throughout history is small. Examples include Britain's repeal of the Corn Laws in 1846 or tariff reductions undertaken by Australia and New Zealand in the 1980s.[8]

Today, trade between countries is generally structured through *trade agreements*. In the narrowest sense, trade agreements are the culmination of negotiations between two or more states concerning the arrangements governing how their countries' citizens and businesses economically interact across state boundaries. These agreements can take bilateral, plurilateral, or multilateral forms.

Trade agreements are not necessarily focused primarily upon securing trade liberalization. *Preferential* trade agreements involve two or more countries agreeing to give each other preferential access to certain goods and services. These agreements can involve reducing tariffs (taxes levied by governments on imports designed to protect or support domestic industries from foreign competition) on such goods and diminishing other restrictions on those goods. The primary goal, however, may not necessarily be a general diminishment of trade barriers between the countries involved. A preferential trade agreement could be a first step towards a free trade agreement but need not be.

A *free* trade agreement by contrast does aim to produce an overall lowering of obstacles to trade between one or more states, such as tariffs or industrial policy (government interventions into specific economic sectors intended to alter outcomes of free domestic and international markets). Free trade agreements are generally incremental in scope, and often constitute the starting point for further future trade liberalizations. But whether bilateral, plurilateral, or multilateral, the objective is a net liberalization of trade between the signatories to the agreement. The World Trade Organization (WTO) and its 164 current members are the most visible multinational institutional expression of this ambition.

But whatever the form taken by a trade agreement, it involves states negotiating issues as specific as patents, food-safety standards, immigration levels, environmental regulations, labor conditions, and compensation to be paid to those deemed probable "losers" from a given trade agreement. Before and during these negotiations, governments are lobbied by specific industries, businesses, nongovernmental organizations

(NGOs), and unions, each of which wants specific provisions written into trade agreements that protect and promote their particular interests rather than, say, 330 million American consumers' wants and needs.

To varying degrees, trade agreements involve states acting to secure advantages for politically influential domestic actors via the use of policy tools such as subsidies and regulation. In this sense, trade agreements embody distinctly mercantilist dimensions insofar as they reflect states' efforts to shape the direction of trade in ways that secure "wins" for certain groups, usually at the expense of consumers. To that extent, even many free trade agreements necessarily depart from free market principles.

What National Security Is and Is Not

Trade agreements also reflect the fact that governments seeking to open their economies in a world of states must consider the non-economic implications of trading with other states, including geopolitical adversaries. How willing is a government to allow foreign companies from a geopolitical rival access to its markets? How does one weigh the trade-offs associated with the economic benefits of enhanced ease of trade with a state that is or may be a threat, with the possible national security risks associated with trading with that rival?

A trade agreement, for instance, may permit American businesses to transfer technologies with companies located in other states, in return for which American businesses gain access to new consumer markets. But many technologies have both civilian and military uses. This creates predicaments for policymakers. When should the US government ban American companies from transferring certain technologies to companies based in hostile (or even friendly) states? By what criteria should governments make such decisions?

From Adam Smith onwards, trade liberalizers have always acknowledged genuine national security claims as a legitimate exception to their position that trade between states should be as free as possible. When Smith stated in Book V of *The Wealth of Nations* that "The first duty of the sovereign" is "protecting the society from the violence and invasion of other independent societies,"[9] he meant it. This, Smith recognized, is economically expensive but the cost is necessary.

But how far does a legitimate national security exception to trade openness go? When do appeals to national security start turning into open-ended warrants for extensive state interventions that undermine economic freedom, competition, growth, and even national security itself? Since 2008, there has been a significant rise in WTO member states invoking the WTO's hitherto rarely used national security exception to inhibit trading of products.[10]

Determining the validity of such actions and the proper relationship between trade liberalization and national security requires a clear definition of national security. Two broad conceptions of national security are relevant for our discussion. The first is the "realist" understanding of national security.

The modern origins of this conception of national security go back to the 1648 Treaty of Westphalia. This established the sovereign state as the most basic unit of international relations. Henceforth, there was no political entity that could claim "international authority" like the Holy Roman Empire or the Papacy. Sovereignty in the sense of who possessed 1) ultimate authority over the inhabitants of a given body politic, and 2) responsibility for that political community's security was firmly and formally situated at the domestic rather than international level.

This idea of sovereignty implied acceptance that any state might need to wage war against other states to protect its interests. International relations, from a realist standpoint, are thus understood as "anarchic." But this "anarchy" is regulated through an equilibrium of states: i.e., "the balance of power" in which no one state is allowed to acquire power on a scale that would enable it to dominate all others.[11]

For three centuries, this understanding of international relations existed alongside the notion that states would freely adhere to "the law of nations." This constituted the rules which states embraced because 1) they were understood to be grounded on moral principles theoretically knowable by all peoples; 2) they had achieved expression in similar laws and customs that emerged separately in different states; and 3) states considered following these rules to be in their self-interest, even in times of severe conflict.[12] The Scottish Enlightenment thinker David Hume, for example, valued the law of nations inasmuch as it helped to inject more predictability and structure to international relations. Nonetheless, he believed that the balance of power was the most efficacious way to manage international affairs.[13]

International trade was addressed extensively in the law of nations. On the one hand, the law of nations (especially as expressed in the books of the Dutch philosopher Hugo Grotius) strongly affirmed the right of individuals to trade across sovereign boundaries.[14] The same law of nations, however, recognized that sovereignty implies borders, and that states can make decisions about whom and what crosses their borders and under which conditions. Hence, although books like Emer de Vattel's *Law of Nations* (1758) indicated a preference for the free movement of goods, capital, and people, most law of nation scholars gave states considerable scope to regulate such movements, including on what we would now call national security grounds.[15]

Realist conceptions of national security may be contrasted with "internationalist" ideas of national security. The latter seek to promote and maintain peace among states via supranational and international institutions through which states seek to realize "collective security."

Antecedents of this idea go back to the Abbé de Saint-Pierre's book *Projet pour rendre la paix perpétuelle en Europe* (1713) but achieved powerful expression in Immanuel Kant's *Perpetual Peace: A Philosophical Essay* (1790). Kant advocated the establishment of a "*league of peace* (*foedus pacificum*) which will be distinguished from a *treaty of peace* (*pactum pacis*) because the latter seeks merely to stop *one* war, while the former seeks to end *all* wars forever."[16] The "federation," Kant held, would "extend gradually over all states and thus lead to perpetual peace."[17] In this increasingly borderless world, he maintained, people would "gradually be brought closer and closer to a constitution establishing world citizenship." Commerce would flow freely throughout this federation, as Kant envisaged it.

Rather than the law of nations, Kant preferred a system of international law whose content would be determined by international and supranational political and legal institutions. Though Kant did not call for establishing a "world authority" or "world government," the logic of what he calls his "free federation" or "continuously growing state consisting of various nations" points in this direction.

Today, internationalist conceptions of national security take two primary forms. The first is that international institutions are derived from the desire of states to mitigate their differences through mechanisms that minimize transaction costs and promote cooperation between states.[18] States choose to participate in international institutions because they provide established and often efficient fora for them to negotiate and resolve their disagreements, thereby realizing a type of collective security.

A second version of internationalism involves states subordinating themselves to the decisions of international institutions. This carries overtones of such institutions constituting a type of global authority. National security is thus transformed into an idea of "global security." As described by historian of ideas Kim R. Holmes, this means that "the world's security is everybody's business. It rests on the premise that no single state is secure unless all are secure. While lip service is given to the idea of national defense, the far greater focus is on attempting to eliminate conflict through international law, aid, confidence-building measures, and global governance."[19] Today's European Union might be viewed as a prototype for this type of arrangement.

After World War I, these two concepts of internationalism achieved institutional form with the establishment of the League of Nations and related bodies like the Permanent Court of International Justice and the International Labor Organization. Following World War II, further institutionalization was realized via the creation of the United Nations and the growth of extensive international legal protocols governing topics like when and how states may engage in war.

In economic terms, internationalism after World War II was reflected in the General Agreement on Tariffs and Trade (GATT) in 1948 (which became the WTO in 1995). Its objective was, to cite its preamble, to realize a "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."[20]

Today, realist and internationalist conceptions of national security exist uneasily side-by-side. Disagreement within and between states persist about which model or mixture of the two models should prevail. But one thing is clear. Today, the primary entity that *acts* to promote the security of states remains the sovereign state. International institutions have no independent capacity to protect America (or any other state) from external aggression. Any international action to defend one or more states from such aggression presently depends upon the willingness of states to act unilaterally or in concert against aggressors.

Today, realist and internationalist conceptions of national security exist uneasily side-by-side.

There is no indication, at present or in the foreseeable future, of conditions emerging that would allow some international institutions to develop into a type of world authority that would assume responsibility for maintaining security for all states. Even the EU, for all its supranational ambitions, has struggled to move in this direction. Certainly, most states do participate in international institutions because they consider it to be in their interests to do so. But to the extent that an international order exists, it remains a construct highly shaped by the idea of a balance of power: one that, as the classicist and historian Paul Rahe writes, reflects "alliances forged in the face of common fear, and of negotiations backed by a credible threat on one or both sides that, if a settlement is not achieved, there will be unpleasant consequences." This, Rahe adds, is what brings "a semblance of order out of the reigning chaos by imposing a structure on the relations between political communities."[21]

From this standpoint, national security remains firmly the responsibility of states, and we should continue to speak of national security rather than global security. That means, as Holmes writes, that "National security is the safekeeping of the nation as a whole. Its highest order of business is the protection of the nation and its people from attack and other external dangers by maintaining armed forces and guarding state secrets."[22] This translates into each state:

- Maintaining its independence as a state.
- Identifying threats to national security.
- Establishing and maintaining a military able to defend the state from external aggression and support other national interests commensurate with available resources.

Economic Activity and National Security

These criteria help us delineate with some specificity which activities by states can and cannot be legitimized on national security grounds. Take, for example, public health. While a pandemic can threaten the health and lives of a state's inhabitants, unless that pandemic results from a biological weapon deployed by state actors, it does not constitute an attack by one state upon another. Dealing with a pandemic is primarily the responsibility of health authorities, not national security officials.

Those same national security criteria, however, embrace more than purely military matters. Here, economics features significantly. In 2010, Chairman of the Joint Chiefs of Staff, Admiral Mike Mullens, surprised audiences when he stated that "The most significant threat to our national security is our debt."[23] Mullens' specific concern was the ways in which he believed an excessive public debt and the need to service it could undermine America's ability to resource its national security needs.

But Mullins' comment also reflected a longstanding emphasis of national security scholars. In 1923, British military theorist JFC Fuller stated that "[t]he first duty of the grand strategist . . . is to appreciate the commercial and financial position of his country; to discover what its resources and liabilities are."[24] In other words, maintaining and growing a nation's economic strength is a prerequisite for a military capable of defending the state from external aggression. States unable to sustain sufficient economic growth to support governments' use of that output to meet its national security needs will compromise their ability to defend themselves.

Nonetheless, acknowledging national security's reliance on maintaining sound economic conditions does not render a state's economic policies the direct or even indirect responsibility of national security officials. Nor does it mean that the US (or any other) government should assume close direction of the economy. Government-planned economies are far less proficient than market economies at generating economic growth. The Soviet command economy's failure was not the only reason for the USSR's defeat in the Cold War, but it played a significant role in degrading the Soviet Union's ability to realize the most basic of national security objectives: sustaining its own existence as a sovereign state.

A concern for national security thus means strong limits upon what the government can do in the economy on national security grounds. Without a high degree of economic liberty alongside institutions that protect this freedom (private property rights, rule of law, etc.), the state's capacity to fulfill its national security responsibilities will be compromised. A state whose economy is rendered increasingly uncompetitive vis-à-vis other states or burdened by out-of-control spending on entitlement programs, or otherwise in economic distress, will be tempted to under-resource its national security needs.

This is where trade policy enters the picture. Do free trade or economic nationalist policies facilitate or degrade a state's economic capacity to resource its national security needs? Answering these questions requires two further conceptual building blocks: 1) the difference between "relative gain" and "absolute gain" and 2) the differing "logics" underlying national security and free trade.

Different Gains, Different Logics

In international relations theory, the concept of "absolute gains" is used to describe gains that states accrue from a particular policy without reference to the relative losses or benefits that might be experienced by other states affected by, or who are partners to, the policy which inclines them to cooperate with other sovereign states.[25]

Looking at a trade agreement from this standpoint, US negotiators will focus on the absolute gains that America derives from this deal with other states, and less upon how it might relatively benefit or hurt geopolitical rivals or allies. There is, however, acknowledgement that cooperation with such states is needed to secure these absolute gains for America. These gains are not simply economic but may also entail political gains for America such as a lower likelihood of conflict with other partners to the trade agreement.

By contrast, states that pursue "relative gains" focus on the relative advantage that they may gain over other states by pursuing a particular policy. Here, it is more important for America to "win" vis-à-vis other states, rather than for America to gain in absolute terms.[26]

Emphasizing relative gains might, for instance, make negotiators especially attentive to the ways in which a trade agreement does or does not promote America's economic and strategic position over the position of its rivals and allies. Those same negotiators may recognize that America stands to make absolute gains from a proposed trade agreement with one or more other states. Nevertheless, they may still advise that America should decline to ratify the agreement because they believe that it does not deliver sufficient gains relative to what is gained by one or more geopolitical rivals.[27]

On one level, one could contend that the concept of absolute gain tends to favor free trade arguments. Arguments for trade liberalization typically emphasize that free trade delivers "absolutely" — and not just economically — for states that embrace it. For example, State A becomes wealthier through agreeing to lower trade barriers with States B, C, and D, and is less likely to be involved in wars with these same states.

The notion of relative gains, by contrast, is often presented as generating more skepticism about free trade. From a relative gains standpoint, trade liberalization may indeed make, say, State A wealthier, but it may also make State B — which happens to be a geopolitical rival of State A — wealthier. Negotiators might conclude that trade liberalization could possibly strengthen State B's capacity to wage war against State A.

In response, those who focus on absolute gains would point out that trying to quantify relative gains is extremely difficult. How, for instance, does one determine and measure the amount of economic growth that State A needs to give up, in return for an enhanced national security position regarding State B? Could it be that it makes more sense for State A to focus on the absolute gains derived from a trade agreement with States B, C, and D? If State A knows that 1) trade liberalization will deliver growth to its economy, 2) has some reasonable confidence that it will improve relations with States B and C while 3) simultaneously reducing State D's incentives to get into serious conflicts with State A, the case for focusing on absolute gains seems more solid on both economic and national security grounds.

A similar dichotomy underlies the different "logics" underlying trade liberalization and national security. The ends and means specific to national security logic — particularly its military dimension — is replete with us-versus-them reasoning. The objective of military action is to deter and, if necessary, neutralize specific threats to Americans and American interests by hostile state and non-state entities. Such reasoning is necessarily confrontational and zero-sum in outlook. America "won" because National Socialist Germany and Communist Russia "lost." In pursuit of these two objectives, the United States necessarily expended considerable economic resources.

The logic of trade is quite different. Trade between states is not about defeating enemies. Nor is it a zero-sum exercise. Rather, it is a positive-sum activity though which all participants win — albeit to varying degrees and in differing ways — through mutually beneficial exchanges over extended periods of time.

Both logics have a legitimate place in the decision-making processes followed by policymakers. The point of national security is defense against real and potential enemies, while the point of trade is exchange that makes all participants wealthier and better off in their own estimations.

At first glance, one might conclude that the respective logics of free trade and national security are irreconcilable. But what if it is the case that America wins both in economic *and* national security terms, thanks to the economic growth and other goods stimulated by trade liberalization? To answer this, we must consider how economic power feeds military power and how trade openness augments a state's economic strength.

Growth, Trade, and Strength

Gross National Product (GNP), Gross Domestic Product (GDP), and per-capita GDP are typically used to assess a state's economic power. These metrics are also deployed to assess changes over time in different states' economic strength relative to one other.

All other things being equal, a state's defense capacities are heavily dependent upon the economic resources that it has available for such purposes. Ensuring national security over the long-term requires a steady long-term growth in GDP. Factors like technological sophistication and population size are important. But a state with a higher GDP than its opponents can expend more economic resources on its defense than its rivals. A wealthier state can force a more-populous but GDP-poorer adversary to spend a larger proportion of its GDP on defense, thereby reducing the poorer state's ability to meet other economic demands, including its citizens' consumer needs and wants.

America's Cold War victory over the Soviet Union illustrates this point. The USSR devoted a huge proportion of its GDP to military spending. It could not, however, keep up with America's expenditures on defense. America spent a lower proportion of its GDP on defense in the Reagan years than did the Soviets, but the US economy's sheer size and superior rate of growth meant that the USSR had to spend a greater percentage of its GDP on defense.[28] Other sectors of the Soviet economy, accordingly, received fewer economic resources, thereby generating growing dissatisfaction among the Soviet Union's citizens with the Communist regime. "The vast superiority of the US-led sphere in economic/commercial power," writes the international relations scholar Dale C. Copeland, "not only allowed it to keep pace with the Soviet Union in arms and strategic nuclear power — at a fraction of the cost to the US economy — but it reduced communism's appeal as an alternative ideology and way of life."[29]

From this angle, US national security is augmented by a strong American economy, with military strength dependent on a high rate of economic growth. It is thus in the interest of national security to consistently enhance the factors which drive growth. This brings us squarely to the ways in which trade liberalization accelerates economic growth and thus contributes to the United States' capacity to defend itself against external aggression and meet other national security needs.

On an individual level, Americans engage in cross-border trade because they believe that they will economically *gain* from such transactions. Without that confidence, these exchanges would not occur.

Moreover, the freer a state's citizens are to trade with the rest of the world, the faster that state's GDP grows compared to those with high trade barriers.[30] The most comprehensive World Bank study of this question found that "Over the 1950-1998 period, countries which liberalized their trade regimes experienced annual average growth rates that were about 1.5 percentage points higher than before liberalization. Post-liberalization investment rates rose 1.5-2.0 percentage points, confirming past findings that liberalization fosters growth in part through its effect on physical capital accumulation. Liberalization raised the average trade to GDP ratio by roughly 5 percentage points, suggesting that trade policy liberalization did indeed raise the actual level of openness of liberalizers. Trade-centered reforms thus have significant effects on economic growth within countries."[31]

By any standard, there are impressive numbers. In a more recent 2024 analysis of the same topic, the trade economist Douglas A. Irwin states:

> A consistent finding is that trade reforms have had a positive impact on economic growth, on average, although the effect is heterogeneous across countries. Overall, these research findings should temper some of the previous agnosticism about the empirical link between trade reform and economic performance.[32]

To the extent that trade liberalization amplifies the size and speed of America's GDP growth and its associated benefits like greater productivity (including in manufacturing)[33], it permits America to continue spending more on defense — including defense research and development — as a proportion of its GDP than less-wealthy states, including members of the G7.[34] By contrast, as one detailed 2019 International Monetary Fund analysis of protectionism's impact illustrated, "tariff increases lead, in the medium term, to economically and statistically significant declines in domestic output and productivity."[35]

Trade and Trade-Offs

Paradoxically, there is a national security risk associated with one great power economically outpacing its geopolitical rivals' economic growth rates. As Copeland states, "We know from theory and history that actors that anticipate a deep and inevitable decline in their power positions tend to start big wars or engage in aggressive behaviors."[36] For example, fears about the Russian Empire's economic growth eventually outpacing that of Imperial Germany were a factor in the calculations of Germany's civilian and military leaders as they considered options for war in the 1910s.[37]

This, it could be argued, is a good reason for a threatened state to try and obstruct a rival state's economic expansion, including through protectionist policies. Against this, however, we must consider two countervailing factors.

First, if State A decides to try and obstruct trade with State B as a way of impeding State B's economic growth, it imposes higher costs upon State A's domestic production. This translates into higher consumer costs and slower growth for State A, and thus potentially fewer resources to resource its national security needs.

Second, State A's choice to obstruct trade with State B may push State B towards a more belligerent view of State A, or seek closer relations with State A's rivals, or pursue less peaceful ways of obtaining what it wants. This is especially the case if State B believes that trade restrictions imposed by State A will diminish State B's long-term economic growth and thus weaken its ability to realize its national security goals.

We can apply this framework to America's decision to ratify China's accession to the WTO. From 1980 until America legislated Permanent Normal Trade Relations (PNTR) with China in 2000 and China's entry into the WTO in 2001, China enjoyed Most-Favored-Nation (MFN) trading status with the United States. This was renewed on an annual basis (including after the Tiananmen Square massacre). China's trading status with the US was subsequently the same as most of America's other MFN partners. As a consequence, US-China trade steadily grew between 1980 and 2000.[38]

In 2000, the US was faced with a choice. On the one hand, it could block China's entry to the WTO and simply continue annual extensions of MFN status. China would have likely regarded this decision as an unfriendly act. That would have harmed US relations with the world's most populous nation: one that also was experiencing tremendous economic growth and possessed immense sway in the Asia-Pacific region. That same country was one with which America (and many American allies) had enjoyed a growing trade relationship that was delivering lower costs to American consumers, export markets for American businesses, a huge consumer base to which to sell American goods and services, and many new jobs in America. All these things that benefited America could have been put in jeopardy by America vetoing Beijing's entry into the WTO.

The other choice was the one that America took: to agree to China's accession to the WTO and establish Permanent Normal Trade Relations (PNTR) with China. This permitted continuation (and, it turned out, growth) in the economic benefits that trade liberalization delivered for both countries.[39] It also helped America to maintain a quietly cooperative — albeit also competitive —relationship with China that had been growing since the Nixon Administration normalized relations with Beijing.[40] Lastly, it helped to accelerate dramatically the growth of the Chinese middle class,[41] some of which presumably have a vested interest in stable relations with the rest of the world, including America.

In hindsight, it is easy to second-guess this choice in light of the path that China has pursued since Xi Jinping's rise to power in 2012. Nonetheless, the case of China illustrates well the different trade-offs associated with national security and trade liberalization. China certainly grew economically as a consequence of enhanced trade with America and the rest of the world, but so too did the United States. Moreover, even without accession to the WTO, China would still have grown through trade — including trade with America. Given the economic, political and international conditions of the time, the choice made by the

United States in 2000 was reasonably assessed as better than the alternative.

Improving Relations through Trade

Enhanced growth is not the only way in which trade liberalization can enhance America's national security. There is empirical evidence indicating that growing trade between states lowers (though without eliminating) the likelihood of those states engaging in serious military conflicts.[42] To the extent that free trade involves states embracing mutually beneficial exchange, it increases America's wealth and that of its trade partners. That confidence in the mutual gains of trade makes trade partners potentially friendlier to the United States — or at least less likely to view America as an enemy engaged in a resource-extraction exercise.

Trade openness also motivates other states to regard America's well-being as being in their own self-interest. That reduces the odds of conflict. If State A is wealthy, has a big consumer market, and makes it easy for foreigners to trade with its citizens, the more attractive is State A's economy for foreign businesses and investors. That translates into more growth for State A's economy which can be drawn upon for national security needs as well as more employment and lower prices for State A's citizens. Moreover, as growing number of foreigners and foreign businesses invest in State A's economy, their interest in State A's security grows.

Conversely, if State A embraces protectionism, it discourages foreigners from trading with and investing in it. That translates into less economic growth for State A, fewer potential resources to expend on national security, and lower interest by other states in State A's well-being. State A's protectionism also signals its inward turn to the rest of the world. This provides an opening for State B to develop closer economic and political relations with State A's allies, who resent State A's penalization of imports into its economy.

The pacifying effects of trade liberalization, it should be noted, do not mean that economically integrated states will eventually conclude that all wars are a futile exercise. This claim was central to the journalist Norman Angell's famous book *The Great Illusion* (1910). The cross-border economic integration spurred by trade liberalization, Angell held, would gradually render war a hugely costly exercise that no state could sustain for long. Eventually, Angell believed, people would understand that war was not in their enlightened self-interest. States' approaches to foreign policy would subsequently "catch up" with the logic of economic integration, the result being a radical diminishment (if not eventual extinguishment) of the possibility of war.[43]

Angell's argument was severely undermined by the outbreak of World War I. Despite the considerable economic interdependencies crisscrossing the continent, European governments decided that treaty obligations, ethnic ties, and national interests trumped the high economic costs associated with shattering those interdependencies by opting for war. Furthermore, they were able to engage in brutal warfare for just over four years.

It is also the case that there are numerous examples of belligerents continuing to trade with one another *during* wars, including all-encompassing conflicts like World War I.[44] Finally, there is an argument to be made, as Adam Smith did in rudimentary form,[45] that states which grow wealthier through trade liberalization have more economic capacity to wage war. Greater wealth may even tempt governments to embark on prolonged military endeavors, since they can better sustain the expense than poorer states.

The argument that growing trade between states fosters more peaceful relations between them thus needs to be expressed in *probabilistic* rather than definitive terms.[46] This is the sense in which we can affirm French philosopher Montesquieu's observation[47] that *doux commerce*'s spread across national boundaries is likely to reduce the prospect of violence between states — if only because it obliges states to think about the economic damage that a choice for war may inflict upon themselves in an economically integrated world. Insofar as the economic integration fostered by trade liberalization may cause some states to hesitate before attacking other states, it promotes the latter's national security.

The Follies of National Security Economic Nationalism

Trade liberalization thus contributes to US national security in economic and extra-economic ways. The alternative to trade liberalization is the logic and policies of economic nationalism. This seeks to realize economic security for an individual state via government interventions that impair, tax, and occasionally forbid cross-border commercial exchanges. The irony is that economic nationalist policies, pursued in the name of greater security for a state and its inhabitants, can significantly compromise that state's national security.

Grasping how economic nationalism weakens America's national security requires recognizing one of economic nationalism's original foundations: the insistence that commerce across borders resembles a zero-sum game. This was an underlying assumption of mercantilist doctrines that dominated Western states from the late fifteenth century until the late eighteenth century.[48] The economic and political dysfunctionalities generated by this mindset can compromise a state's ability to promote its national security.

Fighting a non-problem

The first such dysfunctionality concerns *trade deficits*. When America exports more than it imports, neo-mercantilists regard this as positive. Foreigners, they say, are purchasing more American-produced goods than Americans are buying foreign goods. America thus "wins." Conversely, by this logic, when Americans buy more foreign-made products than American goods, America "loses." And when a state loses in this manner, neo-mercantilist logic suggests, its economy and therefore its national security capacities are weakened.

This reasoning rests upon a misconception of the nature of trade. First, as noted, when two or more individuals or businesses in different states enter a free exchange, both "win" because each secures what they want from the other. Otherwise, one or the other would have declined the exchange.

Conceived as mutually agreeable and beneficial (if not exactly equal) exchanges, trade deficits between states are neither bad nor good. What matters is that the individuals and businesses engaged in trade get what they value. The economist Julia Cartwright explains this in the following way:

> When an economy runs a trade deficit, more goods flow into the economy, in exchange for dollars, than flow out of the economy, which means that these dollars return to the US as a capital account surplus. This surplus represents the amount of foreign investment that is coming back into the US

> in our dollars. More investment translates into higher productivity, expansion of industry, and new businesses and innovation. I have a trade deficit with my local grocery store: I always buy cheese from them, yet they don't ever buy anything from me. My trade deficit with the grocery store is ever-expanding, yet I am not poorer because of it — nor is this trade deficit at all unsustainable.[49]

Part of the problem is that the expression ”trade deficit” has negative connotations of “losing” while “trade surplus” convey an impression of “winning.” As long, however, as we understand that the whole point of trade is that people exchange something they possess in return for something they value more, we will recognize that neither person in the transaction experiences a loss.[50] And nor do the states in which those people reside.

Weakening Oneself

Protectionist policies intended to alter the balance of trade, then, are trying to resolve a non-problem and waste considerable resources in doing so. Unfortunately, the story does not end there. The “we win because they lose” mentality underlying economic nationalism necessarily generates economic and political dysfunctionalities within those states that embrace neo-mercantilist policies. The history of tariffs in mid- to late-nineteenth America underscores the point.

In the mid-1850s, considerable efforts were made to push America in decisively protectionist directions. Economic historian Phillip W. Magness observes that tariffs became a major issue in the 1860 presidential and congressional elections, having gained considerable momentum during the recession and Panic of 1857.[51]

Five years later, following the Confederacy's surrender, America's industrialization accelerated as part of the Second Industrial Revolution also experienced by other Western states like Britain, Germany, and France. In each case, steel and iron production expanded, new manufacturing technologies were devised, and innovative organizational methods emerged.

In the northeastern United States, this boom produced a wealthy class of industrialists and large numbers of industrial workers. Both groups tended to view competition from other industrialized states, especially Britain (then America's biggest trading partner), as threatening their products' sway in American markets.[52]

Thanks partly to political pressures exerted by these groups, America took a strong protectionist turn after the Civil War. The economic results were at best mixed. Magness shows that there is “considerable evidence that the harms of late nineteenth century [American] protectionism outweighed the isolated benefits to selected industries on net.” These included, he states, “1) the loss of agricultural exports to Europe through symmetry effects, effectively harming farmers in order to prop up northeastern industries and 2) higher prices on imported machinery and other capital goods, which likely impaired the pace at which America industrialized.”[53]

A similar picture of protectionism inhibiting industrialization, undermining economic efficiency, and impeding economic growth during this period is found in Douglas A. Irwin's *Clashing Over Commerce: A History of US Trade Policy* (2017). In his analysis of trade policy in antebellum America, Irwin found that manufacturing was widespread in America before the Civil War and that it flourished under the lower-tariff regime that prevailed between the mid 1840s and late 1850s.[54] Irwin also illustrates that "tariffs on capital goods made investment spending more costly and less efficient."[55] Similarly, he notes, the "high cost of basic iron and steel hampered the development of downstream industries, such as tinplate," and "raised the cost of construction and transportation projects."

It is true, Irwin concedes, that the high-tariff policy was not "costly and inefficient" in terms of the deadweight loss that it inflicted on the US economy. But the evidence suggests, Irwin concludes, that "it is difficult to make the case that high import tariffs were an important factor driving late-nineteenth-century US economic growth."[56]

Why were protectionist measures maintained in place for so long in postbellum America? The answer is politics. Tariffs persisted, Irwin explains, because of "the strong protectionist coalitions that stood behind them."[57] At the time, this was noted by the economist F.W. Taussig in his *Tariff History of the United States* (1888). Examining the 1867 wool tariff act and the 1869 copper tariff act, Taussig found no proof of outright bribery. Nevertheless, he concluded that "contributions to the party chest are the form in which money payments by the protected interests are likely to have been made."[58]

Taussig also pointed out that "some Congressmen thought it not improper to favor legislation that put money in their own pockets, and that many thought it quite proper to support legislation that put money into the pockets of influential constituents." Looking at longer-term postbellum trends, Taussig established a steady pattern of "manipulation of the tariff in the interest of private individuals."[59] The same individuals, he stated, were adept at undermining any effort to diminish tariffs via the 1883 Tariff Act, despite growing hostility to tariffs throughout America.[60] In these years, economist Brian Domitrovic points out, "Owners of successful businesses with cash to spare routinely sponsored agents in Washington, D.C., to pressure members of Congress to write 'lines,' as the term went, in each new tariff bill that either dinged foreign competitors or put inputs on the 'free list'."[61]

But what about economic growth? America surpassed Britain as the world's largest economy and industrial power in the late nineteenth century. Between 1870 and 1913, Irwin shows that America's real per capita GDP "grew nearly 4 percent per year in the United States, compared to about 2 percent in Britain," while "per capita GDP grew by about 1.8 percent per year compared with 1.0 percent per year in Britain."[62]

There is little reason to believe that tariffs had much to do with this growth. Instead, America's economic growth flowed, Irwin states, from a remarkable combination of factors:

> The nation had free internal trade and the free movement of labor and capital across states, an abundance of agricultural land, and untapped natural resources, and the enforcement of contracts and protection of property rights through a non-politicized judicial system. The size and scale of the market, knitted together with railroads and other transportation improvements, led to efficient large-scale businesses and innovative organizational structures that encouraged industry specialization and ensured robust domestic competition. The country had a well-functioning capital market that high investment rates, access to the world's best industry technology from Britain and elsewhere . . . In short, the country was well situated for both extensive and intensive growth, regardless of the trade policy it chose.[63]

Per capita GDP growth, Irwin states, owed a great to "capital deepening, arising from high rates of savings and investment."[64] And tariffs, he adds, did not contribute to this.[65]

Antagonizing other States

It is difficult to maintain that postbellum America enjoyed substantive economic gains from protectionist policies. But what matters for our purposes is the way in which these policies harmed America's national security position in these decades. This is most evident with tariffs' negative effects upon America's relationship during the same period with its biggest trading partner, which also happened to be the nineteenth century's superpower.

Nineteenth-century America was marked by a considerable degree of Anglophobia. Memories of the War of Independence and the War of 1812 persisted for decades. These attitudes were exacerbated by prominent protectionist politicians like Henry Clay, who viewed British imports to America as creating a type of economic dependency. "It is," Clay stated in his 1832 American System speech, "in effect, the British colonial system that we are invited to adopt; and, if their policy prevail, it will lead substantially to the recolonization of these states, under the commercial dominion of Great Britain."[66]

Following Britain's embrace of trade liberalization in 1846, British goods (particularly, manufacturing products) flooded world markets. This was one reason why American manufacturers in the North-East started pressuring Congress for protective tariffs in the mid 1850s. The eventual result was the Morrill Tariff of 1861. But, as Magness shows, this tariff had negative national security implications for America, particularly Britain's stance towards the Union during the Civil War:

> [The Morrill Tariffs'] shortsighted favors to recipient industries infuriated Great Britain, one of the country's largest trading partners. All else equal, British anti-slavery sentiments should have made them a natural sympathizer with the Union cause during the Civil War. Instead, tariff irritation became a diplomatic blunder that helped push Britain into an uneasy neutrality.[67]

The trade historian Marc-William Palen arrives at similar conclusions in his book *The "Conspiracy" of Free Trade: The Anglo-American Struggle Over Empire and Economic Globalization, 1846-1896* (2016). "The tariff," Palen writes, "played an integral role in confounding British opinion about the cause of southern secession, and in enhancing the possibility of British recognition of the Confederacy."[68]

Ongoing protectionist policies pursued by the United States after the Civil War exacerbated America's chilly relations with a naval, economic, and financial superpower with whom America — despite strong ties of language, liberal constitutionalism, history, religion, and trade — was already involved in several disputes. These included American claims that Britain was violating the Monroe Doctrine in its boundary disputes with Venezuela, disagreements about American fishing rights in British-Canadian waters, and strong divergences on international currency policy between the two states.

At times, major diplomatic efforts were required to prevent these tensions from spilling over into war.[69] Not incidentally, the "Great Rapprochement," as it was called, between America and Britain which began in the mid-1890s was preceded by efforts to liberalize trade between the two great English-speaking powers during President Grover Cleveland's first administration. Though Cleveland had limited success in this area,[70] his trade policies contributed to improved relations between America and Britain.[71]

Trivialized National Security and Bad Economics

In addition to the ways in which tariffs undermine national security by damaging relations between states, economic nationalist policies risk diluting national security's foci in ways that end up damaging states that go down such paths.[72] This is exemplified by developments in post-2016 US trade policy.

Section 232 of the Trade Expansion Act (1962) permits the President to impose tariffs on any product that, in the President's view, is "being imported into the United States in such quantities or under such circumstances as to threaten to impair national security." The legislation was infrequently invoked until, the trade lawyer Scott Lincicome has detailed, the Trump Administration took office.

"In less than four years of Section 232's 58-year existence," Lincicome demonstrates, "the Trump administration was responsible for 24 percent of all investigations, 40 percent of all affirmative national security findings, and 25 percent of all actions."[73] Lincicome observes that it is hard to identify any of the Trump Administration's Section 232's actions as having much to do with national security. Nor is this situation helped by the fact that, as Lincicome points out, "Because Section 232 provides no definition for 'national security,' the statute allows for an interpretation of the term that is broadly disconnected from reality."[74]

A prominent instance of how such policies rebounded against America was the Trump Administration invoking Section 232 to impose 25 percent tariffs on steel imports and 10 percent tariffs on aluminum imports in March 2018. This was despite Defense Department advice that the US military only needed 3 percent of total domestic steel and aluminum production, and that broad-based import restrictions were unnecessary.[75]

The primary target of these tariff increases was China on account of what the Trump Administration identified as unfair practices of Beijing: specifically, "(1) forced technology transfer from US inventors and companies; (2) nonmarket based terms for technology licenses; (3) Chinese state-directed and -facilitated acquisition of strategic US assets; and (4) cyber-enabled intrusions into US commercial networks to steal trade secrets for commercial gain."[76]

These measures were adopted despite the fact that most steel and aluminum imports into America came from American allies.[77] Tariffs on these goods thus created tensions between the United States and allies like the EU, Japan, Turkey, and Canada, neighbors like Mexico, regional powers like India, as well as hostile states like Russia. Several of these states announced retaliatory tariffs. Making matters worse is that these tariffs did not produce any changes in China's own trade policies — something publicly conceded on pages 502–504 of the 2019 *Economic Report of the President*. This report further acknowledged that the tariffs produced retaliation against groups like American farmers, who in turn had to be compensated by the US government.[78]

What was the formal rationale for these steel and aluminum tariffs? This is contained in a Department of Commerce 2019 report. The first paragraph of the report's executive summary states: "The Secretary in this investigation again determined that 'national security' includes the 'general security and welfare of certain industries, *beyond those necessary to satisfy national defense requirements*'."[79] That interpretation amounts to a license for any administration to invoke national security as the basis for imposing trade restrictions and penalties upon sectors of the US economy not even tangentially related to national security: in this case, the car industry.

To back up its claim, the Commerce Department report insisted that automobile technology contributes to defense, but it provided little evidence to support those claims. Instead, the report emphasized that American car companies had outsourced many of their operations to states like Mexico and Canada and were importing many parts from abroad.

The fact that such outsourcing has occurred was certainly true. Less obvious is how this threatened national security. In the end, the report was reduced to claiming that "the 'displacement of domestic products by excessive imports' — in particular, the displacement of automobiles and certain automobile parts manufactured by American-owned firms" weakened America's domestic economy, which might "impair national security."[80]

Precisely how "excessive imports" undermines the US economy and consequently hurts America's national security is not explained. In fact, no such chain of cause-and-effect can be established. The same reasoning amounts to arguing that the US economy is weakened whenever American businesses follow the logic of comparative advantage and decide to focus on what they do comparatively better than their domestic and foreign competitors. But one of the most basic economic lessons concerning trade is that pursuing comparative advantage is part of the path to economic growth and strength — not the opposite.

Comparative advantage concerns the ability of an individual or group to produce a particular good or service at a lower opportunity cost (the potential benefits that we *miss out on* by choosing one alternative over another) than its competitors. Exposure to the pressures of domestic and foreign competition plays a major role in helping individuals and businesses discover and develop their comparative advantage.

Protectionism, by contrast, gradually dulls our awareness of our comparative advantages as well as opportunities to pursue them. Tariffs and import quotas seek to offset foreign competition's impact on a given domestic industry. For a time, they may even succeed. But such measures also discourage that industry from adapting and becoming more efficient. The more you protect an industry, the more inflexible and inefficient it will become. If protectionist measures are thus systematically applied to more industries across a state's economy, the same inefficiencies and inflexibility will emerge everywhere, thereby weakening that economy and therefore a state's ability to resource its national security needs.

Industrial Policy Doesn't Promote National Security

Tariffs are not the only means by which neo-mercantilist policies can corrode national security. The same is true of another prominent policy tool associated with economic nationalism: industrial policy — government interventions via measures such as subsidies, preferential tax treatment, public-private partnerships, and below market interest-rates loans, into specific economic sectors and industries intended to alter the outcomes that would otherwise be delivered by free domestic and international markets.

Economic nationalists hold that industrial policy is necessary to bolster particular economic sectors and to secure the production of specific goods considered consequential for a state's national security interests. Their arguments fall into one of two categories: 1) the need for national self-reliance; and 2) the need to promote technological innovation and its military fruits and applications. Closer examination of both claims, however, finds them wanting.

SELF-RELIANCE AS SELF-DEFEATING

The need to avoid excessive reliance on foreign suppliers for specific materials is often presented as legitimate grounds for industrial policy. The effective dominance of the production of a particular good by one or several states, for instance, puts them in a position to exert political pressures on other states. One example would be the decision of OPEC's Arab members to embargo oil sales to America in 1973-74 and cut oil production. Economic nationalists subsequently maintain that states need to deploy industrial policies to ensure a domestic supply of particular goods, thereby reducing a nation's vulnerability to such disruptions.

In national security terms, some goods and even whole economic sectors matter more than others because they have a more immediate connection to military capabilities that enable a state to defend itself. Heavy reliance on foreign suppliers of such products should be avoided if a sudden absence of those goods would seriously undermine America's capacity to defend itself against external aggression. Similarly, it would be a mistake for America, as C.R. Neu and Charles Wolf Jr. state, to "depend on foreigners for products or designs, the detailed workings and operational specification of which need to be kept secret"[81] for military purposes. In such cases, the higher economic costs associated with avoiding such reliance are outweighed by the military advantages attained by bearing those costs.

The desirability of self-reliance in certain military-relevant goods, however, does not mean that self-reliance should be pursued for every possible product that might matter for defense purposes. There is *no* compelling national security reason why, for instance, basic military uniforms or meals should be produced domestically. Nor does it make any economic sense to insist on their domestic production if they can be produced at less cost abroad. Moreover, should foreign companies suddenly cease supplying these types of goods, finding domestic alternatives for such products is not difficult.

As for products deemed to have more immediate military applications, seeking to realize as much self-reliance as possible implies a willingness to pay a higher price to domestic producers of such goods rather than foreign suppliers who offer the same good (and sometimes a higher-quality version) at a lower price. Initially, that seems to be a decisive rationale — until one considers that the side-effect of choosing to pay more is to reduce available defense spending for other, perhaps more important areas.

Sourcing some of these goods from foreign sources can be cost-effective. The same cost-effectiveness also frees up space in the defense budget to spend on other military needs, as well as to stockpile that good for emergency purposes. The easier access to foreign markets created by trade liberalization can also make it easier for the United States to secure such products from abroad.

As for civilian essentials like medical supplies and food, a free and competitive economy unburdened by tariffs and unimpaired by industrial policy is invariably a more flexible and dynamic economy. This means that different industries can switch quickly to the production of other goods in emergencies. This regularly happens in time of war or national emergencies. The capacity of many American manufacturers to pivot rapidly to the production of medical equipment and supplies during the COVID-19 pandemic is a good example of such resilience.[82]

Indeed, efforts to establish specific domestic production of these essentials do not guarantee a sure supply of the needed goods. A group of domestic suppliers may not be positioned to provide as plentiful or reliable a supply of the same goods as a combination of domestic and foreign suppliers. That is yet another reason why stabilizing and enhancing American access to foreign markets matters for national security purposes.

This point can be demonstrated by considering efforts to create more domestic production of semiconductors via industrial policy such as the CHIPS and Science Act (2022). In light of US-China tensions, the present location of a large portion of semiconductor production in East Asia — especially Taiwan, Japan, and South Korea — may make it desirable for America to have more domestically based semiconductor production. But we should bear in mind that American semiconductor production has had a strong international dimension from the industry's very beginnings in the 1950s.[83] By 1974, American semiconductor businesses had established no less than 108 distinct operations throughout the rest of the world.[84]

Some of this internationalization was driven by lower labor costs. But it also reflected the fact that many of the materials that go into making semiconductors are not as available in America compared to abroad.[85] It is not unusual for the cheapest supply of a particular raw material needed for production of cutting-edge technologies to be found outside the United States.

This means that even if the CHIPS Act results in more US domestic-based assembly of semiconductors, such factories will *still* require inputs less easily sourced in America than from abroad. Those firms receiving subsidies and other benefits via the CHIPS Act are *still* going to need the type of access to foreign markets that can be made more cost-effective by trade liberalization.

DISTORTING AND UNDERMINING TECHNOLOGICAL INNOVATION

Alongside self-reliance arguments, another national security rationale for industrial policy concerns the perceived need for governments to promote technological developments with military implications. Subsidizing research by private high-tech firms has been justified on the basis of the likelihood that newly developed technologies may help the US military to maintain one of its most vital post-1945 military advantages over opponents.

Significant difficulties emerge in deploying industrial policy to realize this goal. Many reflect inherent problems with industrial policy per se.

In the first place, no particular technological breakthroughs are guaranteed to occur as a result of industrial policy. By definition, industrial policy is prospective. This makes it difficult to justify such interventions on the basis of verified facts. We cannot know in advance whether a given intervention will produce research with significant military implications. This translates into a significant possibility of research-oriented industrial policy wasting significant economic resources, or producing goods that turn out to not be useful for defense purposes.

Even if a subsidized industry appears to have developed a technology that gives State A military advantages over State B, that does not mean that the government assistance which accompanied this goal was effective or worth the cost from either an economic cost or national security perspective.[86] One must ask whether the breakthrough might have happened regardless of subsidy or protection, and also what might have happened to those industries that did not receive help or benefits. It may well be that the industrial policy actually directed resources away from other companies that may have produced even better technology in more cost-effective ways.

Indeed, it is extremely difficult to prove that an industrial policy was the key ingredient to driving forward growth and technological development in *any* sector of the economy. As a much-cited 1993 World Bank analysis of the East Asian economic miracle states:

> It is very difficult to establish statistical links between growth and a specific intervention and even more difficult to establish causality. Because we cannot know what would have happened in the absence of a specific [industrial] policy, it is very difficult to test whether interventions increased growth rates.[87]

These challenges are exacerbated by industrial policy's problematic premises, some of which have very practical implications.[88] Industrial policy assumes that governments possess the capacity to identify successful interventions in embryo, and then to bolster industry, including defense-related industries, in cost-effective ways. But government officials cannot know the technologies of the future. Nor is it clear that governments can accurately predict which technologies will be decisive in the next conflict. Few anticipated the role played by drones in the Russia-Ukraine war in significantly impeding the use of armored forces.[89]

Not only are governments ineffectual at picking the new technologies of the future; they are necessarily influenced by technologies of the present that may be rendered redundant by unforeseeable innovation. Industrial policy thus risks reinforcing and even stagnating the technological status quo.

This problem is compounded by the natural tendency of governmental officials who make these decisions to gravitate towards those companies with which they are familiar.[90] Yet much technical innovation will come not from the most established players (who invariably have Washington D.C. lobbying teams), but rather from those upcoming innovators who are only just beginning their careers, who are less impressed by and invested in established ways of thinking, and who are less politically connected.

Another difficulty concerns establishing the criteria by which government officials identify a worthwhile potential development with military implications, assess it as superior to all the other possible technological developments, and then support it with some form of industrial policy. The difficulty of devising such criteria makes it more likely that decisions will be made based on intuition and guesswork by state officials relying on experience and instinct. That has its own value, but it does not provide an objective set of reference points to guide decision-making about which firms to protect or subsidize in the interests of national security, and which to leave to their own devices.[91] The necessity of discretion and personal judgment in such matters opens the door to manipulation of those decisions, those criteria, or both, by rent-seekers whose interests do not necessarily coincide with America's national security goals.[92]

This cronyism characterizes all forms of industrial policy. Industrial policy is an inherently political exercise. Any interventions to promote military innovation will necessarily be influenced by politics and lobbyists, whose incentives do not always align with the public's expectations of national security. That is not a recipe for maximizing technological innovations. And once an industrial policy is implemented, it is difficult to end, even if it fails to realize its objective. Companies in receipt of subsidies or state support will lobby hard to maintain them, and will find no shortage of legislators willing to back them.

Given these predictable failures of employing industrial policy to promote military innovation, what might be the alternative? One option is to move away from using industrial policy in this area and focus on removing, wherever possible, the many obstacles and disincentives to innovation throughout the US economy.

The principle at work here is that a dynamic, competitive, and open economy is more likely to spark ongoing bottom-up entrepreneurship and innovation in every economic sector — including the defense industry —and thus produce genuine technological breakthroughs with potential military uses. In such conditions, military officials would be able to survey new, emerging technologies and assess which may give it an edge over its likely international opponents. Two welcome side-effects would be to diminish the cronyism problem and limit the understandable but also inhibiting preference on the part of military leaders and defense procurement specialists for what they already know.[93]

Another approach would be for the government to maintain and fund explicitly government entities like the Office of Naval Research with a warrant to produce innovation in military-specific technology and given the necessary autonomy and resources to experiment freely. Such entitles would waste considerable resources and suffer from all the inefficiencies and bureaucratic problems that characterize such state enterprises. They would, however, be effectively part of the military and thus considered a necessary state expenditure for national security.

The force of this critique of industrial policy does not rule out the possibility that, in *extremis* national security emergencies, we may need to turn to state intervention to attempt to meet technological needs. The above analysis suggests, however, that the bar for going down that path should be extremely high.

National Security Objections to Trade Liberalization

Economic nationalism plainly has negative implications for national security. But it is reasonable to ask where trade liberalization might make a state vulnerable. The possible effects of supply chain shocks is one such area worth exploring.

As supply chains stretch across the planet and over many borders via trade liberalization, the argument goes, America becomes more vulnerable to shocks emanating from abroad. Any war, pandemic, natural disaster, economic crisis, and/or regime instability could turn once friendly states into neutral or hostile powers. America should limit its vulnerabilities, the logic follows, by trying to insulate itself and its supply chains (especially for goods deemed essential) against such shocks — even if that involves dramatically curtailing trade with particular states and consumers paying higher prices on all the days that disaster doesn't strike.

Important facts impair the cogency of such arguments. Emerging empirical evidence suggests that re-shoring supply chains does not necessarily improve a state's resilience in the wake of severe shocks. Global supply shocks associated with the COVID-19 pandemic motivated economists to devote more attention to this issue.

While the research is preliminary at the time of writing, one major World Bank study of COVID-19's impact on resilience found "no sector in which supply chain renationalization notably improves resilience, measured either by GDP, or by value added of the sector itself."[94] A major contributing factor may be that "reducing the importance of foreign inputs mechanically increases the importance of domestic inputs."[95] But domestic inputs are also impacted by the shock, and so, "there is generally no resilience benefit from renationalizing international supply chains."[96] Indeed, some shortages of goods during the pandemic that received attention – most prominently, baby formula – turned out to flow from Federal government restrictions on the number of domestic producers and Federal Drug Administration restrictions on baby formula imports from abroad.[97]

Substantial evidence also indicates that trade openness makes it easier for businesses to adjust rapidly to shocks by permitting them to more easily source goods from a wider plurality of states.[98] Securing more foreign supplies of military goods is one way to maintain or increase a state's capacity for increased military production in times of crisis. The more that foreign businesses can be called upon in emergencies, the more one can surge production. We should not assume that domestic production alone is sufficient to meet needs or will prove immune to domestic disturbances such as strikes. A big network of domestic and foreign suppliers of goods and services may be better in emergencies than a smaller network of purely domestic suppliers.[99]

Economic events emanating from aboard can and do hurt Americans. But external economic shocks like the 1970s oil embargo are rare. It would be an error to develop trade policies primarily on the basis of uncommon circumstances. The only way to eliminate the impact of economic events from abroad upon America would be for the United States to opt for full autarky: that is, complete economic self-sufficiency.

Autarkic sentiments have long pervaded economic nationalist thought.[100] There is overwhelming evidence, however, that by systematically pursuing economic self-sufficiency, whether adopted by Franco's Spain in the 1940s and 1950s[101] or India under Nehru,[102] autarky produces deep and persistent economic stagnation which has negative consequences for a state's ability to defend itself.

Any state that cuts itself from foreign trade must try to produce everything itself. That means being willing to give up all the benefits of capitalizing on its comparative advantages and paying a high opportunity cost for doing so. It also involves eschewing the improvements sparked by foreign competition, the efficiencies associated with specialization within the international division of labor, and the economic growth driven by specialization. Yet another cost of autarky is that, absent access to the full range of raw materials of which *no* state possesses a full and endless domestic supply, even a state with considerable resources of labor and capital will fall behind those states that do have such access.[103]

Autarky is thus more than simply the economics of extreme self-harm. More self-sufficiency means a static or decreasing amount of GDP from which a state can resource its national security needs. Worse, states that opt for full or quasi-autarkic policies may resort to wars to acquire territory and resources to improve their economic position. Nazi Germany's desire for economic autarky was one factor that contributed to its effort to acquire "living space" in Eastern Europe and the Soviet Union.[104]

In truth, major *domestic* shocks to the US economy, like the 2008 Financial Crisis or the Great Depression, are more common than external shocks.[105] Domestic policies that steadily undermine innovation, weaken competition, compromise property rights, and fracture rule of law have more potential to do long-term damage to America than external economic shocks. While external shocks can hurt America, a US economy that remains big enough, flexible enough, and open enough is more able and likely to adapt quickly.

DUAL-USE DILEMMAS

Another area where national security scholars often express concerns about trade liberalization concerns technologies that can be interchangeably used for civilian and military purposes. Examples of dual-use technologies range from semiconductors in the present to aircraft in the lead-up to World War I.

Today, many contracts between American and foreign companies involve the selling or transfer of technology. Trade agreements often seek to make such transfers less burdensome to the contracting parties. National security dilemmas, however, may arise when such technologies have dual-use capacities, especially when the business acquiring the technology is based in a hostile state with a track record of employing dual-use technologies to enhance its military capacities.

Since 1945, America's ability to defend itself has relied heavily on superior technology. Technological prowess does not guarantee victory over hostile powers, but it can provide an important competitive edge in military conflicts. A state with a technological advantage can rely less on the sheer size of its recruitable military population to realize its national security needs.

Given technology's importance for US national security, how should we approach the question of technology transfers? Generally, there is no good reason for restricting trade in purely commercial technologies, or technologies that may have military uses but whose significance for a state's ability to secure its national security is minimal or declining in significance.

If, conversely, a technology is purely military (armored vehicles) or may have dramatic implications for a state's ability to wage war (nuclear technology), there may be good reasons for restrictions on American companies selling or transferring such technologies to foreign companies or governments without US government approval. The requirement for such approval should extend to US allies. We cannot assume that they will always be allies or will not use such technologies in ways that undermine US national interests.

Since its establishment in 2001, the Department of Commerce's Bureau of Industry and Security (BIS) has been charged with responsibility for preventing the export of dual-use technologies when such items are deemed vital to national security. That especially concerns items relevant to the production of weapons of mass destruction or items that might facilitate terrorist activities.[106] Other US government organizations also play a role in this area. The mission of the Defense Technology Security Administration, for instance, is to "Identify and mitigate national security risks associated with the international transfer of controlled information and advanced technology in order to maintain the US warfighter's technological edge and support US national security objectives."[107]

We should, however, recognize the actual rather than idealized impact that embargoes, bans, and limitations on trading dual-use technologies can achieve. Assessing whether to restrict exports of a given dual-use technology is not easy. As noted, what constitutes "decisive" or "critical" technologies for national security purposes changes, sometimes suddenly. There are real limitations upon our ability to anticipate these eventualities, especially when it comes to dual-use technologies.

There are also inherent limits to any state's ability to stop or interdict the spread of technology that is not exclusively military in nature. A ban on direct sale of dual-use technologies from American interests to hostile states, for instance, may not be able to curtail those states' ability to acquire the same technology in international markets or from non-American suppliers. In other words, unless America is prepared to restrict *all* transfers of a particular dual-use technology to *all* states, unfriendly states may be able to obtain such technologies, even while American businesses endure the economic costs of restrictions designed to stop such transfers.

Another factor to consider is the lack of incentive for American businesses to sell or transfer the most-up-to-date version of a given technology. That technology may be what gives it a decisive advantage as they compete with their domestic and foreign rivals. The very fact that Chinese officials and companies regularly resort to theft to attempt to secure the very latest technology[108] indicates that American businesses are reluctant to trade away such advantages.

Given these conditions, we must ask what it is reasonably within the capacity of governments to do vis-à-vis the dual-use dilemma. The national security focus in the area of dual-use technologies should be upon monitoring and regulating the export of those dual-use technologies considered essential for producing weapons of mass destruction or deliver a truly decisive military edge (as far as this can be reasonably anticipated) to hostile states. US government agencies should be especially attentive to preventing theft of such technologies by state actors and punishing those individuals and entities involved in such theft.

It remains, however, that technological transfers, or the simple diffusion of technology, are extremely difficult to prevent. What should matter is pushing the frontier so that older forms of technology, even if they were important from a national security standpoint and became the target of foreign adversaries, become less important over time.

America's emphasis should thus be upon developing *new* technologies — whether military, dual-use, or civilian. Constant innovation is critical for maintaining and extending America's military technological edge. To facilitate that growth, policymakers should consider what economic conditions are most likely to generate and incentivize such developments. As observed, we have good reason to believe that an economy characterized by liberty, entrepreneurship, competition, and dynamic trade, within the United States and between America and the rest of the world, is far more proficient at delivering this type of innovation consistently. Economic nationalist policies conversely are unlikely to do so.

GEOPOLITICS AND FOREIGN INVESTMENT

One feature of expanded trade between America and the rest of the world is growing opportunities for foreign businesses and governments to invest in the US economy. America is presently the world's most favored destination for foreign direct investment (FDI).[109] That means more capital for the US economy which translates into greater growth and a stimulus for employment.

In 2019, approximately 10.1 percent of employment in America was directly or indirectly supported by FDI.[110] That number had been steadily increasing since 2007.[111] Among the American jobs most dependent on FDI are "Jobs in trade-exposed manufacturing activities (manufacturing industries that face import competition, such as the production of motor vehicles and parts, semiconductors, aircraft and parts, and metal product industries)."[112] FDI in America is also disproportionately directed to research and development.[113]

Foreign investment by companies domiciled in or owned by other states, however, is often flagged as a potential national security threat.[114] This is especially the case if the state concerned is 1) one of America's geopolitical rivals, or 2) the foreign investment is in sectors considered strategic for national security purposes, or 3) that investment allows foreign state-owned or aligned enterprises to exercise significant equity-voting rights in such firms. For these reasons, America has a long history of scrutinizing foreign investment in the US economy.[115]

FDI in American businesses, including by businesses or funds owned by foreign governments, is generally a benign exercise. It is hard to see how Australian businesses investing in US real estate markets or German companies acquiring large equity shares in American agribusinesses threaten national security. The vast majority of FDI in America is of this variety. Indeed, if even the foreign firm investing in, say, the automobile industry is a Chinese state enterprise, the national security threat is not immediately obvious.

Certainly, there are economic sectors, particularly the defense industry, where scrutiny of foreign investment from a national security standpoint is warranted. This is the particular responsibility of the Treasury Department's Committee on Foreign Investment in the United States (CFIUS). Founded in 1975, CFIUS reviews particular transactions "involving foreign investment in the United States and certain real estate transactions by foreign persons in order to determine the effect of such transactions on the national security of the United States."[116]

Over the past fifty years, CFIUS's brief has been progressively modified. Its initial focus was on those situations in which FDI might facilitate technology transfers that could have negative implications for US national security.[117] The number of investigations of FDI transactions initiated by CFIUS was a very small proportion of all FDI transactions. The number of such transactions actually blocked by US presidents was tiny.[118]

Significant changes to CFIUS's responsibilities, however, were introduced with the enactment and implementation of the Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018. This amended CFIUS's governing statute (section 721 of the Defense Production Act of 1950) to extend the amount of time that CFIUS could take to assess the national security implications of an FDI transaction and the amount of information that they can require from potential foreign investors. Further changes were made when the Biden Administration issued Executive Order 14083 on September 15, 2022.

Taken together, these policy shifts considerably expanded CFIUS's investigative scope and reflect a significant growth in what is considered to fall into the realm of national security. CFIUS's brief now includes, for instance, FDI in cybersecurity firms or businesses that store personal and biological data of American citizens. Also covered was any situation in which "an investment shifts ownership, rights, or control with respect to certain manufacturing capabilities, services, critical mineral resources, or technologies that are fundamental to national security" towards foreign persons or businesses, as well as any transaction that effects "supply chain resilience and security, both within and outside of the defense industrial base, in manufacturing capabilities, services, critical mineral resources, or technologies that are fundamental to national security, including: microelectronics, artificial intelligence, biotechnology and biomanufacturing, quantum computing, advanced clean energy (such as battery storage and hydrogen), climate adaptation technologies, critical materials (such as lithium and rare earth elements), and elements of the agriculture industrial base that have implications for food security."[119]

That is a long list. In some instances (e.g., climate adaptation technologies), the connection to national security is not immediately obvious. In other instances, the language is vague (e.g., "certain manufacturing capabilities"). But aside from the potential of some of these changes to exacerbate tendencies to "national securitize" everything to do with America's economic relationship with the rest of the world, there is a risk that they will compromise America's commitment to open investment by chilling the atmosphere for FDI in America that has generated considerable economic growth in the United States and thus helped bolster its long-term security. That in turn could cause foreign companies to look for investment opportunities elsewhere.

Ironically, the FDI by Chinese firms in America which is the target of many of these measures has been in decline since 2018. When one adds to this the fact that of the total $5.25 trillion FDI in the US in 2022, only $28.66 billion consisted of Chinese FDI in American firms (i.e., less than half of one percent of total FDI)[120], it is reasonable to ask whether some of the policy changes making FDI in the United States a considerably more complicated exercise will turn out to be of net long-term benefit to America in either economic or national security terms.

Conclusion

Tensions between the respective premises and priorities of national security and trade liberalization are inevitable. These tensions have been brought into heightened focus over the past ten years by America's changing relationship with China. US policymakers have consequently had to assess the trade-offs between, on the one hand, the undeniable economic benefits of liberalizing trade with China, and on the other, legitimate concerns about how China's long-term strategic goals and present foreign policy direction might impact US national security.

Without denying the fact that states always make trade-offs when navigating the competing demands and logics of trade liberalization and national security, the central contention of this paper is that the pursuit of ever-freer trade between America and the rest of the world is a net economic and national security benefit to the United States. By contrast, the economic nationalist alternatives will steadily corrode America's long-term economic well-being and weaken its ability to meet its national security needs.

Certainly, trade liberalization should not be regarded as ushering in the type of perpetual peace envisaged by Kant. Nonetheless, we ought to resist the temptation to imagine that, in a world in which states remain the essential building-block of international relations, economic nationalist policies are more likely to help realize national security objectives.

Through trade liberalization, America accentuates its economic growth and helps to create relationships with other states that gives them some interest in America's ongoing economic prosperity and overall well-being. These benefits contribute significantly to America's national security in a world of growing geopolitical rivalries. The prospect of liberal international order may be fading. But continuing efforts to liberalize America's trade relations with other states and steadily diminish barriers to cross-border exchanges of goods and services will serve US national security interests in ways that neo-mercantilist and economic nationalist policies cannot.

Samuel Gregg is Friedrich Hayek Chair in Economics and Economic History at the American Institute for Economic Research. He is the author of 17 books, including, most recently, *The Next American Economy: Nation, State, and Markets in an Uncertain World* (2022). In 2024, he was awarded the Bradley Prize.

ENDNOTES

1. See, for example, Robert Lighthizer, *No Trade Is Free: Changing Course, Taking on China, and Helping America's Workers* (New York, NY: Broadside Books, 2023), 89-110; "Senators Hawley, Vance, Rubio Urge CFIUS to Block Sale of US Steel & Protect America's Industrial Base," December 20, 2023, https://www.hawley.senate.gov/senators-hawley-vance-rubio-urge-cfius-block-sale-us-steel-protect-americas-industrial-base; "The Biden Administration's international economic agenda: A conversation with National Security Advisor Jake Sullivan," April 27, 2023, https://www.brookings.edu/events/the-biden-administrations-international-economic-agenda-a-conversation-with-national-security-advisor-jake-sullivan/.

2. See Robert J. Art, "The Four Functions of Force," in eds. Robert J. Art and Robert Jervis, *International Politics: Enduring Concepts and Contemporary Issues*, 13th ed. (Lanham, MD: Rowman and Littlefield, 2023), 228-233.

3. See Wilhelm Röpke, *International Economic Disintegration* (London: William Hodge and Company Ltd. 1942,) 73.

4. See *The Federalist Papers* no. 11, "The Utility of the Union in Respect to Commercial Relations and a Navy" (November 23, 1787), accessed May 2, 2024, https://avalon.law.yale.edu/18th_century/fed11.asp.

5. See Dale C. Copeland, *A World Safe for Commerce: American Foreign Policy from the Revolution to the Rise of China* (Princeton, NJ: Princeton University Press, 2024), 20.

6. See Douglas A. Irwin, *Clashing over Commerce: A History of U.S. Trade Policy* (Chicago, IL: University of Chicago Press, 2018), 468, 476, 495-498.

7. See Harry Truman, "Address on Foreign Economic Policy, Delivered at Baylor University" (March 6, 1947), https://www.presidency.ucsb.edu/documents/address-foreign-economic-policy-delivered-baylor-university.

8. See Martin Richardson, "Unilateral Liberalisation in a Multilateral World," University of Otago Economics Discussion Papers No. 0102, July 2001, https://www.researchgate.net/publication/252888823_Unilateral_Liberalisation_in_a_Multilateral_World.

9. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, eds. R.H. Campbell and A.S. Skinner (Indianapolis: Liberty Fund, [1776] 1981), Bk.5, Chp. 1, Pt 1: 689.

10. See James Bacchus, "The Black Hole of National Security," Cato Institute Policy Analysis no. 936 (November 9, 2022), https://www.cato.org/policy-analysis/black-hole-national-security.

11. See Stella Ghervas, "Balance of Power vs Perpetual Peace: Paradigms of European Order from Utrecht to Vienna, 1713–1815," *The International History Review* 39, no. 3 (2017): 404–425.

12. See Samuel Gregg, *The Essential Natural Law* (Vancouver, BC: Fraser Institute, 2021), 55-64; and Ere Nokkala, "The Development of the Law of Nations: Wolff and Vattel," in ed. Peter Schröder, *Concepts and Contexts of Vattel's Political and Legal Thought* (Cambridge: CUP, 2021), 64-83.

13. See David Hume, *Essays, Moral, Political, and Literary* (Indianapolis, IN: Liberty Fund [1752] 1987), 323-341.

14. See Hugo Grotius, *The Freedom of the Seas, or the Right Which Belongs to the Dutch to take part in the East Indian Trade*, trans. Ralph Van Deman Magoffin, (New York, NY: Oxford University Press, 1916).

15. See Emer de Vattel, *The Law of Nations*, eds. Béla Kapossy and Richard Whatmore (Indianapolis, IN: Liberty Fund, 2008), Bk. 2, Chp. 22, Sections 21-27.

16. Immanuel Kant, *Perpetual Peace: A Philosophical Essay* (1790), accessed May 17, 2024, https://web.viu.ca/johnstoi/kant/peace.htm.

17. Ibid.

18. See Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton: Princeton University Press, 1984).

19. Kim R. Holmes, "What is National Security?" Heritage Foundation 2015 Essays (October 7, 2014), https://www.heritage.org/military-strength-essays/2015-essays/what-national-security.

20. "The Text of The General Agreement on Trade and Tariffs" (1948/1986), 1, accessed January 27, 2024, https://www.wto.org/english/docs_e/legal_e/gatt47.pdf.

21. Paul A. Rahe, *Sparta's Second Attic War: The Grand Strategy of Classical Sparta*, (New Haven, CT: Yale University Press, 2020), 286-7.

22. Holmes, "What is National Security?"

ENDNOTES

23. "Mullen: Debt is top national security threat," CNN (August 27, 2010), accessed June 7, 2024, https://www.cnn.com/2010/US/08/27/debt.security.mullen/index.html.

24. J.F.C. Fuller, *The Reformation of War* (London: Hutchison, 1923), 218.

25. For further discussion of the differences between absolute gains and relative gains, see Robert Powell, "Absolute and Relative Gains in International Relations Theory," *American Political Science Review* 85, no.4 (1991): 1303-1320; and John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York and London: W.W. Norton & Company, 2014), 52-54.

26. See Joseph M. Grieco, "Realist theory and the problem of international cooperation: Analysis with an amended prisoner's dilemma model," *The Journal of Politics* 50, no. 3 (1988): 600-624.

27. See J.D. Morrow, "When Do 'Relative Gains' Impede Trade?" *Journal of Conflict Resolution* 41, no. 1 (1997): 12-37.

28. See Charles Wolf Jr. et al., *The Costs of Soviet Empire* (Santa Monica, CA: RAND, 1983).

29. Copeland, *A World Safe for Commerce*, 20.

30. Jeffrey A. Frankel and David H. Romer, "Does Trade Cause Growth?" *American Economic Review* 89, no.3 (1999): 379-399.

31. Romain Wacziarg and Karen Horn Welch, "Trade Liberalization and Growth: New Evidence," *World Bank Economic Review* 22, no.2 (2008): 212.

32. Douglas A Irwin, "Does Trade Reform Promote Economic Growth? A Review of Recent Evidence," *The World Bank Research Observer*, lkae003 (2024), https://doi.org/10.1093/wbro/lkae003.

33. Germán Gutiérrez and Thomas Philippon, "Declining Competition and Investment in the US," NBER Working Paper Series, Working Paper 23583 (July 2017): 56, https://www.nber.org/papers/w23583. https://www.nber.org/system/files/working_papers/w23583/w23583.pdf.

34. See "Budget Basics: National Defense," Peter G. Peterson Foundation (May 2, 2024), https://www.pgpf.org/budget-basics/budget-explainer-national-defense.

35. Davide Furceri, Swarnali A. Hannan, Jonathan D. Ostry, and Andrew K. Rose, "Macroeconomic Consequences of Tariffs," IMF Working Paper (January 15, 2019): 28, https://www.imf.org/en/Publications/WP/Issues/2019/01/15/Macroeconomic-Consequences-of-Tariffs-46469.

36. Copeland, *A World Safe for Commerce*, 386.

37. See Christopher Clark, *The Sleepwalkers: How Europe went to War in 1914* (London: Allen Lane, 2012), 327-329.

38. See Scott Lincicome, "Testing the 'China Shock': Was Normalizing Trade with China a Mistake?" Policy Analysis No. 895 (Washington, D.C.: Cato Institute, July 8, 2020), https://doi.org/10.36009/PA.891.

39. See, for example, Mary Amiti et al., How Did China's WTO Entry Affect US Prices?" NBER Working Paper no. 23487 (July 2017, Revised December 2018), https://www.nber.org/system/files/working_papers/w23487/w23487.pdf.

40. See Jeffrey A. Bader and Ryan Haas, "Was Pre-Trump U.S. Policy towards China based on 'False' Premises?" Brookings Institution (December 22, 2017), https://www.brookings.edu/articles/was-pre-trump-u-s-policy-towards-china-based-on-false-premises/.

41. See, for example, Homi Kharas and Meagan Dooley, "China's Influence on the Global Middle Class," Brookings Institution (October 2020), https://www.brookings.edu/wp-content/uploads/2020/10/FP_20201012_china_middle_class_kharas_dooley.pdf.

42. See Matthew O. Jackson and Stephen Nei, "Networks of Military Alliances, Wars, and International Trade," FEEM Working Paper no. 46 (July 1, 2015), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2441869; Patrick J. McDonald, "Peace through Trade or Free Trade," *Journal of Conflict Resolution* 49, no. 4 (2004): 547-572; Solomon W. Polachek and Carlos Seiglie, "Trade, Peace, and Democracy: An Analysis of Dyadic Dispute (June 2006)," Institute for the Study of Labor Discussion Paper no. 2170, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=915360; and John R. Oneal, Bruce Russett and Michael L. Berbaum, "Causes of Peace: Democracy, Interdependence, and International Organizations, 1885-1992," *International Studies Quarterly* 47, no. 3 (2003): 371–93, http://www.jstor.org/stable/3693591.

ENDNOTES

43. See Norman Angell, *The Great Illusion: A Study of the Relation of Military Power in Nations to their Economic and Social Advantage* (New York, NY: G.P. Putnam›s & Sons, 1910), 63-84, 336-348.

44. See Mariya Grinberg, "Wartime Commercial Policy and Trade between Enemies," *International Security* 46, no. 1 (2021): 9-52, https://doi.org/10.1162/isec_a_00412.

45. See Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Bk.IV, i., 20: 440.

46. On this point, see the following exchange: Edwin van de Haar, "Free Trade Does Not Foster Peace," *Economic Affairs* 40, no. 2 (2020): 281-286; and Jon Murphy, "In Defence of Liberal Peace: A Response to Edwin van de Haar," *Economic Affairs* 40, no.3 (2020): 460-463.

47. See Baron de Montesquieu, *The Spirit of Laws* (New York: Prometheus Books, 2002), Vol. 1, Bk XX, Chap 2, 316.

48. See Samuel Gregg, "Mercantilist Follies, Then and Now," *Law & Liberty*, September 12, 2022, https://lawliberty.org/mercantilist-follies-then-and-now/.

49. Julia R. Cartwright, "False Directions," *Law & Liberty*, September 7, 2023, https://lawliberty.org/false-directions/.

50. On this point, see Daniel B. Klein and Donald J. Boudreaux, "The 'Trade Deficit': Defective Language, Deficient Thinking," accessed May 2, 2024, https://www.econlib.org/library/Columns/y2017/KleinBoudreauxtradedeficits.html.

51. See Phillip W. Magness, "The Problem of the Tariff in American Economic History, 1787–1934," Globalization, Then and Now," Cato Institute (September 23, 2023), https://www.cato.org/publications/problem-tariff-american-economic-history-1787-1934.

52. See ibid.

53. See ibid.

54. Irwin, *Clashing over Commerce*, 176-203, 283.

55. Ibid, 284.

56. Ibid.

57. Ibid, 275.

58. Frank William Tausing, *The Tariff History of the United States: A Series of Essays* (New York & London: G.P. Putnam's Sons, 1888), 229.

59. Ibid.

60. Ibid, 230-258.

61. Brian Domitrovic, "Why Economists Loathe Tariffs," *Law & Liberty*, January 26, 2024, https://lawliberty.org/forum/why-economists-loathe-tariffs/.

62. Irwin, *Clashing over Commerce*, 278.

63. Ibid, 284-5.

64. Ibid.

65. Ibid, 279.

66. Henry Clay, "The American System, February 2, 3, and 6, 1832 (In the Senate)," in ed. Wendy Wolff, *The Senate: 1789-1989*, vol. 3, *Classic Speeches, 1830-1993* (Washington, D.C.: Government Printing Office, 1993), 91.

67. See Magness, "The Problem of the Tariff in American Economic History."

68. Marc-William Palen, *The "Conspiracy" of Free Trade: The Anglo-American Struggle Over Empire and Economic Globalization, 1846-1896* (Cambridge: CUP, 2016), 34.

69. See ibid, 270.

70. See Irwin, *Clashing Over Commerce*, 288-292.

71. See Palen, *The "Conspiracy" of Free Trade*, 269-270.

72. This section draws on Samuel Gregg, *The Next American Economy: Nation, States, and Markets in an Uncertain World* (New York, NY: Encounter Books, 2022), 247-249.

73. Scott Lincicome and Inu Manak, "Protectionism or National Security? The Use and Abuse of Section 232," Cato Institute Policy Analysis no. 912 (March 9, 2021): 4, https://www.cato.org/policy-analysis/protectionism-or-national-security-use-abuse-section-232#.

74. Ibid, 5.

75. See ibid, 4-5.

ENDNOTES

76. See The White House, *The Economic Report of the President Together with the Annual Report of the Council of Economic Advisors*, March 22, 2019, (N.p.: Independently Published, 2019), 502, https://www.whitehouse.gov/wp-content/uploads/2021/07/2019-ERP.pdf.

77. See Lincicome and Manak, "Protectionism or National Security? The Use and Abuse of Section 232," 4-5.

78. See The Economic Report of the President, March 22, 2019, 502-504.

79. US Department of Commerce, "The Effect of Imports of Automobiles and Automobile Parts on the National Security," February 17, 2019, 5, https://www.bis.doc.gov/index.php/documents/section-232-investigations/2774-redacted-autos-232-final-and-appendix-a-july-2021/file. My emphasis.

80. Ibid., 109.

81. C.R. Neu and Charles Wolf Jr., *The Economic Dimensions of National Security* (Santa Monica, CA: RAND, 1994), 41.

82. See Willy C. Shih, "Global Supply Chains in a Post-Pandemic World," *Harvard Business Review* (September-October 2020), https://hbr.org/2020/09/global-supply-chains-in-a-post-pandemic-world.

83. See Charles Kelley et al., *High-Technology Manufacturing and U.S. Competitiveness* (Santa Monica, CA: RAND Corporation, 2004), 30.

84. See William F. Finan, "The International Transfer of Semiconductor Technology Through U.S.-Based Firms," NBER Working Paper no. 0118 (1975), 56, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=260306.

85. See ETIC, "Rare Earth Minerals and Semiconductors," accessed May 3, 2024, http://eitc.org/research-opportunities/new-materials-technology-and-applications/emerging-semiconductor-and-electronics-technologies/the-future-of-semiconductor-technology/semicomductor-materials/rare-earth-metals-and-semiconductor.

86. See Neu and Wolf, *The Economic Dimensions of National Security*, 26, 29.

87. World Bank Group, *The East Asia Miracle: Economic Growth and Public Policy* (New York: OUP, 1993), 6.

88. For an extensive treatment of this problem, see Neu and Wolf, *The Economic Dimensions of National Security*, 29-31.

89. See Kristen D. Thompson, "How the Drone War in Ukraine Is Transforming Conflict," Council on Foreign Relations, January 16, 2024, https://www.cfr.org/article/how-drone-war-ukraine-transforming-conflict.

90. See Neu and Wolf, *The Economic Dimensions of National Security*, 30.

91. See ibid, 9.

92. See ibid, 29-30.

93. See ibid, 39.

94. Barthélémy Bonadio, Zhen Huo, Andrei A. Levchenko, and Nitya Pandalai-Nayar, "Global Supply Chains in the Pandemic," NBER Working Paper no. 27224 (May 2020, rev. April 2021): 2, accessed June 9, 2024, https://www.nber.org/system/files/working_papers/w27224/w27224.pdf.

95. Ibid.

96. Ibid, 32.

97. See Jon Murphy, "Do Shortages signify the Fragility of Free Trade?" *Daily Economy*, October 23, 2023, https://www.aier.org/article/do-shortages-signal-the-fragility-of-free-trade/.

98. See Francesco Caselli, Miklós Koren, Milan Lisicky, and Silvana Tenreyro, "Diversification through Trade," NBER Working Paper no. 21498 (August 2015), https://www.nber.org/system/files/working_papers/w21498/w21498.pdf

99. See Neu and Wolf, *The Economic Dimensions of National Security*, 43.

100. See Eric Helleiner, "The Return of National Self-Sufficiency? Excavating Autarkic Thought in a De-Globalizing Era," *International Studies Review* 23, no. 3 (2021): 933–957.

101. See Antonio Gómez Mendoza, "El fracaso de la autarquía: la política económica española y la posguerra mundial (1945–1959)," *Espacio, Tiempo y Forma*, Serie V, H. Contemporánea, t. 10 (1997): 297–313.

ENDNOTES

102. See Baldev Raj Nayar, "Nationalist Planning for Autarky and State Hegemony: Development Strategy Under Nehru," *Indian Economic Review* 32, no. 1 (1997): 13–38.

103. See Copeland, *A World Safe for Commerce*, 26.

104. See R.J. Overy, *War and Economy in the Third Reich* (Oxford: OUP, 1994), 176-204.

105. See Peter Temin, "The Causes of American Business Cycles: An Essay in Economic Historiography," NBER Working Paper no. 6692 (August 1998), https://www.nber.org/papers/w6692.

106. See International Trade Commission, "U.S. Export Controls," accessed October 3, 2023, https://www.trade.gov/us-export-controls.

107. See Office of the Secretary of Defense, Defense Technology Security Organization, accessed June 11, 2024, https://www.dtsa.mil/SitePages/default.aspx.

108. See World Trade Organization, "Report of the Working Party on the Accession of China" (November 10, 2001), paragraph 203, https://www.wto.org/english/thewto_e/acc_e/wp_acc_china_e.do.

109. See "Continued optimism in the face of instability," *The 2024 Kearney FDI Confidence Index* (2024), accessed June 10, 2024, https://www.kearney.com/service/global-business-policy-council/foreign-direct-investment-confidence-index.

110. "FDI and Employment: The Role of FDI in Supporting U.S. Jobs," *SelectUSA Brief* (2022), accessed June 10, 2024, https://www.trade.gov/sites/default/files/2022-04/IndirectJobsSelectUSABrief.pdf.

111. "Number of jobs created by foreign direct investment in the United States from 2007 to 2021," accessed June 10, 2024, https://www.statista.com/statistics/954662/number-jobs-us-fdi/.

112. "FDI and Employment: The Role of FDI in Supporting U.S. Jobs."

113. See Alan P. Larson and David M. Marchick, "Foreign Investment and National Security Getting the Balance Right," Council on Foreign Relations, CSR no. 18 (July 2006), 7, https://cdn.cfr.org/sites/default/files/pdf/2006/07/CFIUSreport.pdf.

114. See, for example, "Letter to the Honorable Thomas J. Vilsack" (February 27, 2023), https://newhouse.house.gov/sites/evo-subsites/newhouse.house.gov/files/evo-media-document/letter-to-usda-re-afida.pdf.

115. See Larson and. Marchick, "Foreign Investment and National Security Getting the Balance Right," 7.

116. US Department of the Treasury, The Committee on Foreign Investment in the United States (CFIUS), accessed June 7, 2024, https://home.treasury.gov/policy-issues/international/the-committee-on-foreign-investment-in-the-united-states-cfius.

117. See Ivan A. Schlager et al., "Implications of National Security Reviews on Foreign Acquisitions of US Businesses," *Skadden 2015 Insights* (January 2015), accessed June 10, 2024, https://www.skadden.com/-/media/files/publications/2015/01/implicationsofnationalsecurityreviewsonforeignacqu.pdf.

118. See Jonathan Masters et al., "What Happens When Foreign Investment Becomes a Security Risk?" Council on Foreign Relations Backgrounder (January 2023), https://www.cfr.org/backgrounder/what-happens-when-foreign-investment-becomes-security-risk#chapter-title-0-4.

119. Executive Order 14083 of September 15, 2022 "Ensuring Robust Consideration of Evolving National Security Risks by the Committee on Foreign Investment in the United States," *Federal Register* 87, no. 181 (September 20, 2022), https://www.govinfo.gov/content/pkg/FR-2022-09-20/pdf/2022-20450.pdf.

120. "Foreign direct investment from China into the United States from 2000 to 2022," Statista, accessed June 10, 2024, https://www.statista.com/statistics/188935/foreign-direct-investment-from-china-in-the-united-states/.

250 Division Street | PO Box 1000
Great Barrington, MA 01230-1000
Telephone: 1-888-528-1216 | Fax: 1-413-528-0103
Press and other media outlets contact
888-528-1216
press@aier.org