

Point of View



Rethinking Free Trade

Kim Ruhl



US policymakers are rebalancing economic efficiency with national security amid rising geopolitical risk

When it comes to international trade, countries have always weighed economic efficiency against national security. After World War II, they pursued free international trade through low tariffs in the belief that it was both economically efficient and politically stabilizing. World trade tripled as a share of GDP between 1950 and its peak in 2008, with about half of this trade in intermediate goods, reflecting the importance of cross-border production relationships. Although conflict continued, there were no global-scale wars like those that characterized the first half of the 20th century. Globalization and stability had won out.

The world is now reevaluating the role of economic interconnectedness in global affairs, mindful that more interconnection means more dependencies that adversarial nations can leverage to get their way in other areas of international relations. Resilient economies must be the response. A country must have access to the resources it needs to fight a protracted war. It must have a reliable supply of medicines, microchips, critical minerals, and other vital inputs, regardless of changing global alignment. And it must be able to rapidly increase production in response to an emergency such as COVID-19.

In the United States, President Donald Trump's administration is working to de-risk supply chains and build domestic capacity in key industries to enhance economic resilience. This implies a modification of the policy of near unconditional openness that characterized the past.

These policies will, in some cases, reduce economic efficiency relative to a world in which we ignore geopolitical risk. These are the necessary costs of resilience. Economic modeling that recognizes the trade-off can guide policymakers. The challenge is to minimize the costs and ensure that crude protectionism is not enacted in the guise of national security.

Decades of fragility

For decades, international trade and investment progressed largely unchecked. In search of efficiencies, supply chains—and entire industries—moved abroad to their lowest-cost locations. Trade policy played a role, as did technological advances in communications, transportation, and logistics that made long-distance production relationships feasible. Differences in environmental and labor standards incentivized firms to relocate production to places that valued the environment and workers' rights less.

The US-led international order provided the stability that helped these complex networks flourish. As supply chains stretched and concentrated, fragilities accumulated. These fragilities were always present but often manifested in limited or idiosyncratic ways.

A series of recent events raised awareness of these vulnerabilities and renewed interest in how economics and national security fit together.

COVID-19 supply-chain disruptions made it obvious to all that critical goods—things like pharmaceuticals, semiconductors, and medical supplies—came from a handful of countries and that major disruptions were both possible and painful. Supply-chain vulnerabilities surprised some companies. A Deloitte survey found that only 15 percent of chief procurement officers could see the risks beyond their direct suppliers.

Europe's dependence on Russian energy reminded the world of the long-understood idea that economic integration can bind countries together in mutual restraint, but it produces leverage, too. In 2022 Russia accounted for 27 percent of EU oil imports and 45 percent of gas imports, according to the European Commission. By 2025, Russia accounted for 3 percent of oil and 13 percent of gas imports. Decoupling from Russian energy came at the cost of higher energy prices and slower economic growth. Higher energy bills cut incomes by about €1,000 per person in 2021–22, the Commission estimates.

Chinese export licensing controls imposed in April 2025 led to a shortage of rare earths and derivatives that

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threatened to shutter automotive, defense, electronics, and other production lines in the US and elsewhere. Six months later, China threatened to expand the scope and scale of its export controls in a stark reminder to the US of its vulnerability.

The US must now grapple with the national security risks that accompany key supply chains dominated by their adversaries. The geopolitical considerations of what we trade, and who we trade with, have become a priority.

This does not repudiate comparative advantage and the gains from trade; it is an acknowledgment that free trade is not always appropriate. Free trade in well-functioning markets is still the ideal and should be pursued wherever possible, particularly with allies. Yet many of the problems the US faces are the result of deliberate nonmarket forces, which distort production and consumption despite prevailing low tariff rates.

Dangerous forces

Strategic state direction, subsidies, financial repression, protectionism, and regulatory arbitrage are political forces, not economic fundamentals. These policies are particularly dangerous when deployed by large adversarial countries. Economic thinking must account for more of these forces, and economists can increase their engagement with them.

Policymakers need frameworks to analyze the strategic considerations of their choices. Does a policy build

leverage for the US or vulnerability? How can we identify which goods should be controlled for national security reasons while avoiding unnecessary protectionism? Which goods must be sourced domestically, and which can be imported from allies? How do we restart a domestic industry as efficiently as possible? Perhaps most important is the development of tools that clearly identify the trade-offs between economic efficiency and strategic objectives.

Economists already have many of the analytical tools needed, and these can inform decision-makers about the trade-offs and unintended consequences of policies. Tariffs and sanctions are perhaps the most studied policy levers, but price floors, stockpiles, export restrictions, and investment agreements are just some of the relevant policy instruments available. Tax policy, industrial policy, and regulatory infrastructure may appear to be domestic policy, but they are instruments of economic statecraft as well, and should be studied in that context.

There have always been economists studying geoeconomics, and more work is underway. The flagship conferences of The National Bureau of Economic Research and the American Economic Association regularly feature sessions on geoeconomic topics. The same is happening in academic and policy circles abroad. Economic research tends to lag large, fast-moving events, but it catches up quickly.

A new focus

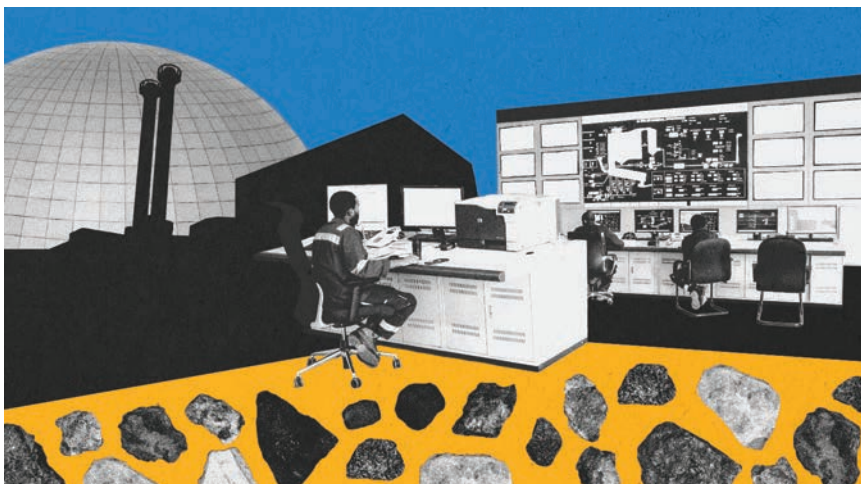
This is the beginning of a long-term, broad-based change in focus for policy-makers and analysts. The field of geoeconomics is all-encompassing, extending beyond international trade and national security. Controlling international payment networks and the dollar are geopolitical strengths for the US, yet nonaligned countries, having learned a lesson from sanctions on Russia, are creating alternative payment networks and finding ways to insulate themselves from a potential loss of access to the US-led financial system.

Countries are racing to lock down critical mineral assets across the world—sometimes competing with allies for resources. Future-defining technologies such as AI, quantum computing, and biotech are up for grabs and will continue to be subject to policy, both good and bad.

The change needed will not happen quickly. Redirecting supply chains and relocating production across countries will take decades. In the short term, changes in policy may cause prices to rise, cause some goods to become scarce, and require costly investments. These short-term costs exist, even if the long-term objective is worthwhile. The structure of US democracy creates further complications. Commitment to a long-term policy is difficult when a future administration can undo the policy of its predecessors, especially when the short-term costs accumulate.

A changing world has brought the trade-offs between economic efficiency and national security back to the forefront of political thought. A clear-eyed reappraisal of national security is welcome, but we must not abandon the economic principles that have made the US economy great, particularly free and competitive markets. Striking the right balance requires a continued effort from policymakers and the researchers who support them. **F&D**

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Africa in a Fractured World

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Geopolitical rivalry is forcing a rethink of trade, investment, and security

Geopolitics is replacing globalization as the world’s governing philosophy. Economic decisions are increasingly subordinated to geopolitical calculations. Supply chains are rewired to optimize national security rather than economic efficiency. Trade and critical resources are weaponized.

The rules-based system of multilateral political and economic relations underpinned by a single hegemon has given way to fierce power-based rivalry and zero-sum competition. The competition is not just for global dominance among world powers but also among middle powers intent on carving out a sphere of influence that places their economic and security interests at the center of a regional order embedded in a broader and fragmented global order.

This context poses multiple challenges for sub-Saharan African countries. Official development assistance is declining, leaving a huge hole in the resources needed to finance development and social services. The uncertainty and anxiety associated with rising tensions and outright hostilities in various parts of the world are also harming investment and trade prospects.

The global political and economic order under which several Asian economies industrialized through outward-oriented export-led policies is no more. Sub-Saharan African countries that are trying to replicate the successes of the