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Geoeconomics and International Trade:

How geopolitics, security, and strategy transform theory, rules, and policy on trade

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Geoeconomics and International Trade - a "geoeconomic WTO"

How geopolitics, security, and strategy transform theory, rules, and policy on trade

Vera Thorstensen[1]

Abstract

The rise of geoeconomics is transforming international trade law, trade governance, and the activities of the World Trade Organization (WTO). Contemporary trade policy is no longer guided primarily by efficiency-based liberalization objectives, but increasingly shaped by strategic, security-driven, and resilience-oriented considerations.

Governments now deploy trade instruments, such as tariffs, subsidies, export controls, investment screening, and supply-chain measures, not only to regulate commerce but also to pursue broader geopolitical and geoeconomic objectives (Farrell and Newman, 2019; Roberts et al., 2021).

This article focuses on the concept of geoeconomics and analyzes its implications for WTO rules and disciplines. It shows how the expanding use of security exceptions, industrial subsidies, and other unilateral trade measures challenged the foundational principles of non-discrimination, reciprocity, and rule-based dispute settlement. Rather than treating these developments as temporary deviations, this article contends that geoeconomics represents a structural shift in the logic of global trade governance.

Building on the analysis of Mavroidis and Wolfe, 2017; Hoekman and Nelson, 2020, Gao, 2018; and Wolfe, 2020, this article proposes avenues for adapting the WTO to a geoeconomic world. It argues for a re-interpretation and partial re-disciplining of security exceptions (GATT Article XXI), greater transparency and notification obligations for security-related measures, as proposed by Paulsen (2024), and the pragmatic use of plurilateral agreements to manage divergences, while preserving the core multilateral framework of the Organization. The article concludes that the long-term viability of the WTO depends on its capacity to accommodate geoeconomic realities, without abandoning its legal and institutional pillars. This means embracing flexibility, so that the WTO is in tune with geoeconomics.

1. Introduction: Trade Beyond Liberal Universalism

For much of the postwar period, international trade was governed by a liberal intellectual and institutional consensus. Trade theory emphasized efficiency, specialization, and welfare maximization, while trade rules sought to depoliticize exchanges through multilateral disciplines. Trade policy was largely framed as a technical exercise aimed at reducing barriers and facilitating market access (Keohane

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and Nye, 1977; Ruggie, 1982; Baldwin, 2016). Political considerations were never absent, but they were institutionally being secondary to economic rationality.

Geoeconomics fundamentally disrupts this arrangement. It reintroduces power, security, and strategic intent into the core of international trade analysis (Luttwak, 1990; Blackwill and Harris, 2016). More recently, economic security has emerged as a central organizing principle of trade policy, particularly in the context of strategic rivalry, technological competition, and systemic shocks (Gertz, 2024; Rodrik, 2024; WTO, 2023). Trade is no longer understood primarily as a positive-sum exchange governed by supposedly neutral rules, but as a contested arena in which states manage vulnerabilities, control dependencies, and pursue relative advantages (Farrell and Newman, 2019; Tooze, 2024).

This article argues that geoeconomics does not simply add a new layer to trade debates. It transforms the foundations of trade theory, reshapes the interpretation and legitimacy of trade rules, and redefines the objectives and instruments of trade policy. The result is a shift from liberal universalism toward strategic, conditional, and security-embedded trade governance, increasingly visible in export controls, subsidy races, and supply-chain interventions (Bown, 2023; Evenett et al., 2023).

This article proceeds in three steps. First, it examines how geoeconomics reshapes trade theory by challenging assumptions of interdependence, efficiency, and the role of the state in the economy (Gilpin, 2001; Drezner, 2019). Second, it analyses how the geoeconomic logic alters the interpretation and function of trade rules, contributing to legal ambiguity and institutional fragmentation (Pauwelyn, 2019; Van den Bossche and Zdouc, 2021). Third, it explores how trade policy is transformed from a liberalizing tool into a core instrument of national economic security (Kirshner, 2007; Nymalm, 2021; Paulsen, 2022). Together, these shifts redefine rules for an international trade system as a central domain of strategic competition (Blackwill and Harris, 2016; Farrell and Newman, 2019). It concludes that WTO must be flexible to become a geoeconomic organization.

2. Geoeconomics and the Transformation of Trade Theory

The Limits of Efficiency-Based Trade Theory

Classical and neoclassical trade theories are built on assumptions of rational actors, market efficiency, and welfare maximization. From comparative advantage to modern models of intra-industry trade and global value chains, trade is treated as a mechanism through which specialization increases aggregate welfare (Ricardo, 1817; Krugman, 1979; Baldwin, 2016).

Political interventions, such as tariffs, quotas, and subsidies, are typically framed as distortions that reduce efficiency and generate deadweight losses (Krugman, 1979; Rodrik, 2011). Interdependence is interpreted as mutually beneficial and stabilizing, raising the costs of conflict and encouraging cooperation (Keohane and Nye, 1977). Even more sophisticated approaches that recognize market failures or strategic behaviour tend to remain embedded within an efficiency framework. They assume that economic integration, while uneven, ultimately creates mutual benefits and incentives for cooperation (Keohane and Nye, 1977). Interdependence is thus interpreted as a stabilizing force, reducing the likelihood of conflict by raising the costs of disruption (Keohane and Nye, 1977; Copeland, 2015).

This framework proved influential in shaping both academic analysis and policy practice. It underpinned decades of trade liberalization, the expansion of global value chains, and the institutionalization of multilateral trade governance (Baldwin, 2016; Jackson, 1997). However, its assumptions become increasingly fragile in a world marked by strategic rivalry, technological competition, and systemic shocks (Drezner, 2019; Tooze, 2021).

Geoeconomics exposes the limits of this framework. It does not deny that trade can generate welfare gains, but it challenges the assumption that welfare maximization is the dominant objective of states, emphasizing instead relative gains, strategic positioning, and control over critical capabilities. In doing so, it shifts the analytical focus from efficiency to power (Gilpin, 2001; Blackwill and Harris, 2016). Recent discussions highlight that states increasingly accept efficiency losses to reduce strategic exposure, particularly in technology-and security-sensitive sectors (Rodrik, 2024; WTO, 2023).

Interdependence as Vulnerability

One of the most significant theoretical transformations introduced by geoeconomics concerns the concept of interdependence. Liberal trade theory treats interdependence as broadly symmetrical and mutually beneficial. The deeper the integration, the greater the incentive for cooperation (Keohane and Nye, 1977; Copeland, 2015).

Geoeconomic analysis reverses this logic by emphasizing asymmetry. Interdependence is rarely evenly distributed. Some actors depend more heavily on external suppliers, markets, technologies, or financial systems than others. These asymmetries create leverage (Hirschman, 1945; Baldwin, 1985; Farrell and Newman, 2019). What appears as economic integration from a liberal perspective may function as strategic exposure from a geoeconomic one (Farrell and Newman, 2019; Copeland, 2015).

As a result, trade theory increasingly incorporates concepts such as vulnerability, chokepoints, concentration risk, and strategic dependency (Hirschman, 1945; Farrell and Newman, 2019). Supply chains are no longer evaluated in terms of cost efficiency, but in terms of resilience and controllability (Tooze, 2021; OECD, 2021). The key analytical focus changed from how much countries trade in total, to who depends on whom, and in which sectors this dependency arises (Keohane and Nye, 1977; Baldwin, 1985).

This reconceptualization marks a decisive break with the liberal assumption that interdependence naturally constrains power politics. Under geoeconomics, interdependence becomes a site of contestation, not a guarantee of cooperation (Farrell and Newman, 2019; Gilpin, 2001).

Geoeconomic analysis reconceptualizes interdependence as asymmetric and potentially coercive (Hirschman, 1945; Farrell and Newman, 2019). Control over chokepoints in finance, logistics, energy, and technology can generate leverage rather than stability, turning integration into a source of vulnerability (Farrell and Newman, 2024). Supply chains are therefore evaluated not only in terms of cost, but in terms of resilience, redundancy, and political reliability (OECD, 2024; WTO, 2023). The key analytical question shifts from how much countries trade to who depends on whom, and in which sectors.

From Absolute Gains to Strategic Positioning

Traditional trade theory privileges absolute gains: if all parties are better off, trade is desirable (Ricardo, 1817; Krugman, 1979). Geoeconomics reintroduces relative gains as a central concern. States assess not only whether trade increases welfare, but whether it strengthens or weakens their strategic position vis-à-vis others (Mearsheimer, 1994/95; Gilpin, 2001).

This shift has far-reaching implications. A trade arrangement that increases overall welfare may still be rejected if it deepens dependency in critical sectors or accelerates the technological advancement of rivals (Rodrik, 2011; Blackwill and Harris, 2016). Conversely, policies that reduce aggregate efficiency may be justified if they enhance strategic autonomy or preserve control over key capabilities (Tooze, 2021; Rodrik, 2011). The adoption of anti-coercion legislation by the EU and Australia is a prime example of this trend.

Trade theory thus evolves toward a hybrid framework in which economic outcomes are filtered through strategic criteria. Welfare remains relevant, but it is subordinated to broader objectives related to power, security, and long-term positioning (Gilpin, 2001; Drezner, 2019).

Under geoeconomics, absolute gains are subject to relative positioning. Trade agreements and production networks are assessed based on their effects on technological leadership, strategic autonomy, and long-term power relations (Rodrik, 2024; Tooze, 2024). Trade theory thus evolves toward a hybrid framework in which economic outcomes are filtered through security and strategic criteria.

3. The Return of the State to Trade Analysis

Markets Embedded in Political Strategy

Globalization theory often emphasized the declining relevance of the state in favor of firms, networks, and global markets (Strange, 1996). Geoeconomics reverses this narrative. It highlights the capacity and willingness of states to shape markets in pursuit of strategic goals (Polanyi, 1944; Gilpin, 2001; Blackwill and Harris, 2016).

Trade flows, investment patterns, and technological diffusion are increasingly influenced by government decisions. Export controls, investment screening, subsidies, and procurement rules directly affect market outcomes (Baldwin, 1985; Farrell and Newman, 2019). Governments influence trade outcomes through regulation, industrial policy measures such as local content requirements, subsidies, export controls, investment screening, and procurement rules. These instruments directly affect market access, competitive dynamics, and technological trajectories (Baldwin, 1985; Blackwill and Harris, 2016). Firms remain central actors in international trade, but they operate within strategic frameworks defined by public authority (Gilpin, 2001; Strange, 1996).

This does not imply a return to autarky or central planning. Rather, it reflects a shift toward state-managed globalization, in which openness is selective and conditional (Rodrik, 2011; Tooze, 2021). The phenomena of friend-shoring and near-shoring are examples of this. Trade theory must therefore account for political authority as a structural variable, not an external disturbance (Polanyi, 1944; Gilpin, 2001).

Geoeconomics marks the return of the state as a central actor in trade and investment. Governments increasingly shape trade flows, investment patterns, and technological diffusion through industrial policy, subsidies, export controls, investment screening, and public procurement (Mazzucato, 2023; UNCTAD, 2023).

Industrial Policy as Trade Strategy

Geoeconomics blurs the distinction between trade policy and industrial policy. Measures traditionally seen as domestic, such as subsidies, state aid, or technology programs, have direct international effects. They shape comparative advantages, alter competitive dynamics, and influence global supply chains (Amsden, 2001; Wade, 2014; Mazzucato, 2018).

Industrial policy has re-emerged as a core trade strategy, particularly in semiconductors, clean technologies, and critical minerals (OECD, 2024; Evenett et al., 2023). More traditional sectors such as automobiles and telecommunications are also affected, as they are now dependent on semiconductors, batteries and critical minerals. These measures directly affect comparative advantages and challenge WTO disciplines designed for a different era, in which industrial policy was treated as an exception rather than a structural feature of competition.

From a geoeconomic perspective, industrial policy is not an exception to trade liberalization; it is a core instrument of trade competition (Mazzucato, 2018; Blackwill and Harris, 2016). States use industrial policy measures to secure leadership in strategic sectors, reduce dependency, and influence global standards (Wade, 2014; Mazzucato, 2018). Trade theory thus expands beyond simple exchange to encompass production and innovation as arenas of strategic rivalry (Grossman and Helpman, 1991; Tyson, 1992). Of course this is not a new phenomenon, but it has now gained a new focus and is central to economic strategies and decision-making.

4. Geoeconomics and the Reinterpretation of Trade Rules

The multilateral trade regime was designed to constrain the politicization of trade through legal disciplines and adjudication (Jackson, 1997; Hoekman and Kostecki, 2009). Geoeconomics places this architecture under sustained pressure. Security exceptions, subsidies, and unilateral measures strain the neutrality and predictability of WTO law (Pauwelyn, 2023; Davey, 2024).

As states increasingly frame trade measures in terms of security, resilience, and strategic necessity, the interpretation of trade rules becomes contested (Pauwelyn, 2019; Van den Bossche and Zdouc, 2021). Legal provisions originally intended as narrow exceptions gain central importance. The boundary between legitimate regulation and disguised protectionism becomes blurred (Bown and Irwin, 2019; Drezner, 2021).

Legal interpretation increasingly becomes inseparable from geopolitical context. Provisions originally conceived as narrow exceptions, such as GATT Article XXI, blur the boundary between legitimate regulation and disguised protectionism (WTO, 2023). Rather than becoming irrelevant, trade rules become more ambiguous and politically charged.

A complementary legal perspective is offered by Mona Paulsen (2023), whose work reframes economic security within the internal logic of WTO law. Rather than treating security as an external justification for derogation from trade obligations, Paulsen conceptualizes economic security as an endogenous and structuring principle of contemporary trade governance. In her analysis, provisions such as GATT Article XXI are not merely exceptional escape clauses but evolving legal interfaces through which states articulate and institutionalize security concerns within the multilateral system. This interpretation challenges the conventional dichotomy between rule-based liberalization and security-driven unilateralism by demonstrating that WTO law itself is being reconstituted through the normalization of security reasoning (Paulsen 2022). As states increasingly invoke economic security in areas such as export controls, investment screening, and supply-chain regulation, legal interpretation becomes inseparable from strategic context. Paulsen's framework thus reinforces the broader geoeconomic argument advanced in this article: the transformation of trade law is not simply a matter of rule erosion or non-compliance, but a process of legal adaptation in which economic security is progressively embedded into the architecture of global trade governance.

Geoeconomics accelerates the fragmentation of trade governance. As universal rules become harder to enforce, states increasingly rely on preferential agreements, regional blocs, and issue-specific coalitions (Bhagwati, 2008; Baldwin, 2016). Fragmentation accelerates as states turn to preferential and plurilateral agreements among trusted partners. Rule differentiation reflects strategic alignment rather than universal liberalism (Hoekman and Sabel, 2023). It is true that multilaterally agreed tariffs are still being applied to more than 70% of international trade. However, other trade measures and regulations are becoming increasingly fragmented.

These arrangements allow like-minded partners to deepen cooperation while excluding or constraining rivals (Katzenstein, 2005; Roberts, Choer Moraes and Ferguson, 2019). Trade rules become differentiated rather than universal. Regulatory standards, digital trade disciplines, and sustainability provisions vary across agreements, reflecting strategic alignment rather than global consensus (Baldwin, 2016; Bhagwati, 2008). Fragmentation is therefore not merely an institutional drift; it is a rational response to a geoeconomic environment in which trust is limited, and power considerations dominate (Farrell and Newman, 2019).

This does not mean that international rules are completely put aside or disappear. Rather, their meaning becomes more ambiguous and politically charged. Trade law is no longer a neutral referee; it becomes a terrain of strategic interpretation (Pauwelyn, 2019; Howse, 2023).

5. Trade Policy as Economic Security Policy

Under geoeconomics, trade policy is no longer oriented primarily toward liberalization. Instead, it becomes strategically selective. Governments differentiate between sectors, partners, and instruments based on security considerations (Kirshner, 2007; Nymalm, 2021; Blackwill and Harris, 2016).

Critical sectors receive protection or support, while non-strategic sectors remain open. Trusted partners enjoy preferential access, while adversaries face restrictions (Blackwill and Harris, 2016; Farrell and Newman, 2019). Trade policy thus becomes explicitly discriminatory, even as it continues to operate within formal legal frameworks (Bown and Irwin, 2019; Pauwelyn, 2020).

This selectivity marks a departure from the principle of nondiscrimination that underpinned the postwar trade order (Jackson, 1997; Hoekman and Kostecki, 2009). It reflects a shift from universal openness to managed interdependence (Rodrik, 2011; Tooze, 2021). It is not by chance that the USA and the EU have recently proposed to discuss the Most-Favored Nation clause – the pillar of nondiscrimination – within the context of WTO Reform. Even if the discussion has little chance of producing results, the message is clear: nondiscrimination is no longer a mantra of international trade.

National security exceptions represent the most visible interface between geoeconomics and trade law. These provisions acknowledge that economic openness has limits, but they were not designed to accommodate systematic geoeconomic competition (Hahn, 1991; Schloemann and Ohlhoff, 1999).

As security-based justifications expand, legal predictability declines, states invoke national security not only in exceptional circumstances, but as a routine basis for trade restrictions (Drezner, 2021; Bown and Irwin, 2019). This weakens the ability of legal institutions to discipline behavior and undermines trust in multilateral enforcement (Pauwelyn, 2020; Howse, 2023). The result is not the collapse of trade law, but its transformation. Legal certainty gives way to strategic discretion, and adjudication becomes entangled with geopolitical judgment (WTO, 2019 and 2023; Howse, 2023).

Trade policy has evolved from a liberalizing instrument into a core pillar of economic security strategy. Export controls, sanctions, and targeted restrictions are used defensively to protect critical capabilities and offensively to influence the behavior of other states (Bown, 2023; Evenett et al., 2023). Economic security has become a central organizing concept in trade governance (Gertz, 2024).

Geoeconomics expands the functional scope of trade instruments. Tariffs, export controls, sanctions, and regulatory measures are deployed not only to correct market failures, but to influence the behavior of other states (Baldwin, 1985; Blackwill and Harris, 2016).

Trade policy acquires a dual character. Defensively, it seeks to reduce exposure (derisking), protect critical capabilities, and enhance resilience (Kirshner, 2007; OECD, 2021). Offensively, it aims to impose costs, deter undesired behavior, or signal resolve. This duality reshapes how trade measures are designed and evaluated (Farrell and Newman, 2019; Drezner, 2019).

Success is no longer measured solely by trade volumes or price effects, but by strategic outcomes (Blackwill and Harris, 2016; Farrell and Newman, 2019).

Global value chains were long viewed as drivers of efficiency. Firms dispersed production across borders to minimize costs and maximize flexibility (Gereffi, 1994; Baldwin, 2016). Geoeconomics fundamentally alters this logic (Tooze, 2021; Farrell and Newman, 2023). Supply chains are now treated as strategic infrastructure, whose concentration, geographic exposure, and reliance on foreign inputs are assessed in security terms. Technological dependencies also pose systemic risks (WTO, 2023; Tooze, 2021; OECD, 2021). Disruption, whether due to conflict, coercion, crisis, or strategic competition, is treated as a systemic risk rather than a temporary shock (Tooze, 2021; Farrell and Newman, 2023).

Policy interventions increasingly aim at diversification, redundancy, and reshoring, embedding supply-chain management within trade and industrial policy (OECD, 2024; Kim and Lawrence, 2025). Resilience, rather than efficiency alone, becomes a core objective of trade governance.

Unlike efficiency, which can be measured quantitatively, resilience is inherently political. It involves judgment calls, and an evaluation of acceptable risks, identification of trusted partners, and strategic priorities (OECD, 2021; Tooze, 2021).

Trade agreements, subsidies, and regulatory measures are increasingly used to reconfigure supply chains in line with national and regional security objectives (WTO, 2023; Farrell and Newman, 2023). This represents a paradigmatic shift in how economic integration is conceptualized and governed (Baldwin, 2016; Rodrik, 2011).

In summary, geoeconomics reshapes international trade by re-embedding it in the logic of power and security. Trade theory shifts from efficiency to vulnerability analysis; trade rules move from neutral constraints to contested instruments; and trade policy evolves into a central pillar of economic security strategy.

This transformation does not abolish trade or markets. It redefines their purpose. Openness persists, but it is conditional, selective, and strategically managed. Understanding this shift is essential for analyzing contemporary trade conflicts, institutional fragmentation, and the future of global economic governance.

These transformations set the stage for an institutional reassessment of the WTO.

6. The WTO’s Structural Misalignment with Geoeconomics

The geoeconomic transformations in the international scenario have profound institutional consequences. The rise of geoeconomics does not merely challenge specific trade policies or legal provisions; it calls into question the foundational assumptions of the multilateral trading system itself (Rodrik, 2018; Mavroidis and Sapir, 2021). Institutions designed to govern trade as a technical and largely depoliticized domain now operate in an environment characterized by strategic rivalry, security concerns, and contested interdependence (Gilpin, 2001; Farrell and Newman, 2019).

The World Trade Organization (WTO) was designed for a world in which economic openness was assumed to be broadly compatible with political stability and security. Its founding logic reflected the post–Cold War belief that liberalization, rule-based governance, and multilateral cooperation would progressively marginalize power politics from international economic relations (Jackson, 1997; Hoekman and Kostecki, 2009). Trade disputes were to be resolved through legal adjudication rather than strategic retaliation, and market access was to be guided by non-discrimination rather than geopolitical alignment (Jackson, 1997).

The WTO was designed for a world in which liberalization and rules-based cooperation were assumed to be compatible with political stability (Jackson, 1997). It was not built to manage systematic rivalry among major powers or sustained geoeconomic competition. As a result, the WTO now faces challenges related to its mandate and legitimacy (Rodrik, 2018; Mavroidis and Sapir, 2021).

The gap between geoeconomic behavior and legal assumptions has produced institutional paralysis, legal uncertainty, and declining confidence in the multilateral trade governance (WTO, 2023).

Geoeconomics exposes the limits of this institutional design. The WTO was not intended to adjudicate conflicts where economic measures are explicitly deployed as instruments of security, coercion, or strategic competition (Pauwelyn, 2020; Howse, 2023). Its rules presume good-faith liberalization and treat security concerns as exceptional deviations rather than as structural features of the system (Hahn, 1991; Schloemann and Ohlhoff, 1999).

Consequently, the WTO now faces a crisis not only of effectiveness, but of mandate. The growing gap between the geoeconomic behavior of states and the legal assumptions of the WTO has produced institutional paralysis and declining legitimacy (Rodrik, 2018; Mavroidis and Sapir, 2021). The central question is no longer whether the WTO is in crisis, but whether it can be recalibrated to function in a world where trade is inseparable from power and security (Farrell and Newman, 2019; Tooze, 2024).

National Security and the Limits of Legal Neutrality

Security exceptions were originally conceived as narrow safeguards, premised on restraint and mutual trust (Hahn, 1991; Schloemann and Ohlhoff, 1999). In a geoeconomic world, these assumptions no longer hold. Security justifications are invoked systematically, generating profound legal ambiguity (Davey, 2024).

If security exceptions are treated as entirely self-judging, WTO rules risk becoming unenforceable. If they are tightly constrained, states may bypass the system altogether. The challenge is therefore to manage, rather than eliminate, security discretion (Pauwelyn, 2023).

National security exceptions lie at the heart of the WTO's geoeconomic dilemma. Provisions allowing states to deviate from trade commitments for security reasons were originally conceived as very exceptional safeguards, premised on the restraint of governments, on the rarity of the situations in which they would be invoked, and mutual trust among members (Hahn, 1991; Schloemann and Ohlhoff, 1999).

In a geoeconomic world, these assumptions no longer hold. Security justifications are invoked not episodically, but systematically. Trade restrictions, export controls, and investment-related measures are increasingly framed as essential to national security, economic security, or strategic resilience (Drezner, 2021; Bown and Irwin, 2019). This expansion reflects genuine structural concerns, but it also generates profound legal conflicts (Pauwelyn, 2020; Howse, 2023).

If security exceptions are interpreted as entirely self-judging, WTO rules risk becoming unenforceable. If they are tightly constrained by adjudication, states may simply bypass or ignore the system (Howse and Teitel, 2010; Petersmann, 2019). The WTO thus confronts a dilemma: how to recognize the legitimacy of security concerns without allowing them to hollow out the rule-based order (Mavroidis, 2020; Pauwelyn, 2020).

Toward a Managed Security Exception Regime

A geoeconomic WTO requires a managed, not absolute, approach to security exceptions. This does not imply eliminating state discretion but rather embedding it within procedural and normative constraints (Howse, 2023; Pauwelyn, 2020).

Key elements of reform could include enhanced notification requirements that require members to specify the scope, duration, and justification of security-related trade measures (Wolfe, 2018; WTO, 2023). Proportionality principles could help ensure that measures are plausibly related to the stated security objective, reducing the scope for disguised protectionism (Pauwelyn, 2020; Van den Bossche and Zdouc, 2021). Ex post transparency and review mechanisms, even in the absence of full judicial adjudication, could restore a measure of predictability and trust (Mavroidis, 2020; Howse, 2023).

Such mechanisms would not completely depoliticize security, but they would civilize it within a rules-based framework (Rodrik, 2023; Tooze, 2024). The objective is not to eliminate geoeconomics from the WTO, but to prevent it from becoming entirely unconstrained (Farrell and Newman, 2019).

7. Subsidies, Industrial Policy, and Strategic Competition

The WTO's subsidy rules were drafted for a world in which industrial policy was considered an aberration rather than a central feature of economic competition (Hoekman and Nelson, 2020). They assume that subsidies distort markets and should be disciplined to preserve fair competition (Jackson, 1997; Hoekman and Kostecki, 2009).

The existing Agreement on Subsidies and Countervailing Measures (SCM) is ill-suited to this reality. It struggles to distinguish between protectionist subsidies and those aimed at systemic resilience or security, leading to selective enforcement and politicization (Hoekman and Nelson, 2020; Mavroidis, 2020). The fact that many of its main rules have been blatantly disrespected by many members, without much consequence, attests to this.

The subsidy disciplines were viewed as a distortion rather than a strategic necessity. Today, subsidies are widely used to secure technological leadership, decarbonization, and supply-chain resilience (Rodrik, 2024; OECD, 2024).

Geoeconomics overturns this premise. Industrial policy is now widely regarded as a legitimate and often necessary tool to secure strategic industries, technological leadership, and supply-chain resilience (Mazzucato, 2018; Evenett et al., 2023). Subsidies are not merely economic instruments; they are strategic investments (Rodrik, 2023).

A geoeconomic WTO must move beyond blanket prohibitions toward differentiated disciplines that distinguish legitimate strategic investment from protectionist distortion, particularly in sensitive sectors such as semiconductors and clean energy (WTO, 2023).

Rather than attempting to restore an obsolete prohibitionist model, WTO reform should aim to differentiate among types of subsidies (Rodrik, 2018; Hoekman and Nelson, 2020). A geoeconomic framework would recognize that some subsidies pursue legitimate public objectives, such as security, decarbonization, or technological resilience (Mazzucato, 2023; Evenett et al., 2023).

Others, by contrast, are designed primarily to displace competitors or capture market share without clear systemic justification (Bown, 2023). Renegotiation could therefore focus on creating sector-specific disciplines for strategically sensitive areas, such as semiconductors, critical minerals, energy infrastructure, and digital technologies (Tooze, 2021; WTO, 2023).

This would mark a shift from an ideology of subsidy elimination to a regime of managed industrial competition (Rodrik, 2023; Mazzucato, 2023).

8. Investment Screening, Export Controls, and Technology Governance

Investment screening and export controls have become central tools of geoeconomics. They shape global production and innovation but remain weakly governed at the multilateral level (UNCTAD, 2023; Bown, 2023).

Rather than treating these measures as anomalies, WTO members should develop principles-based coordination focusing on transparency, proportionality, and spillover effects, without attempting full liberalization.

The WTO framework largely sidelines foreign direct investment, reflecting an earlier era in which capital flows were seen as benign drivers of growth (UNCTAD, 2022; Rodrik, 2011). In a geoeconomic context, this omission is increasingly untenable (Farrell and Newman, 2023).

Investment is now a central vector of influence, technology transfer, and strategic dependency. States screen investments to prevent the acquisition of critical assets, sensitive technologies, or strategic infrastructure (UNCTAD, 2022; Farrell and

Newman, 2023). These measures directly affect trade and production patterns yet remain weakly governed at the multilateral level (Howse, 2023).

A reformed WTO could serve as a forum for principles-based coordination on investment screening, focusing on transparency, due process, and proportionality, rather than attempting full liberalization (Rodrik, 2018; Pauwelyn, 2020).

Export controls represent one of the clearest expressions of geoeconomics. They directly target technological capabilities, shaping innovation trajectories and the strategic balance among states (Bown, 2023; Lewis, 2022). Yet WTO rules provide only limited guidance on their scope and legitimacy (Pauwelyn, 2020).

Rather than treating export controls as anomalies, a geoeconomic WTO would acknowledge them as structural instruments and seek to discipline their use (Farrell and Newman, 2023). Key concerns include scope and targeting, multilateral coordination, and spillover effects on third countries (Tooze, 2021; WTO, 2023).

Embedding export controls within a broader normative framework would not eliminate unilateral action, but it could reduce escalation risks and systemic fragmentation (Howse, 2023; Farrell and Newman, 2023).

Non-discrimination has long been the normative cornerstone of the WTO (Jackson, 1997). Geoeconomics challenges its universality by introducing trust, alignment, and security as criteria for cooperation (Farrell and Newman, 2019; Tooze, 2021).

Rather than abandoning non-discrimination, reform could reinterpret it as conditional non-discrimination: equal treatment among members that meet specified criteria related to transparency, reciprocity, and security compatibility (Rodrik, 2018; Pauwelyn, 2020). This approach would acknowledge geopolitical reality without fully surrendering the normative ambition of multilateralism (Howse, 2023).

9. Dispute Settlement and Plurilaterals in a World under Strategic Disagreement

The WTO dispute settlement system was designed to depoliticize trade conflicts through legal adjudication (Jackson, 1997). In a geoeconomic world, many disputes involve issues such as security, industrial policy, or strategic technology, that resist purely legal resolution (Stone Sweet, 2019; Howse and Teitel, 2010). The non-functioning of the Appellate Body since 2019 is linked to this trend, which was already apparent in the mid-2010s.

Restoring dispute settlement therefore requires recalibrating expectations. Not all conflicts can or should be judicialized (Petersmann, 2019; Mavroidis, 2020). A reformed system could combine legal adjudication for conventional trade disputes with political mediation for security-related conflicts and consultative mechanisms for systemic risks (Howse, 2023; Wolfe, 2018).

Such a hybrid approach would recognize the limits of law without abandoning the rule-based order (Rodrik, 2018; Mavroidis and Sapir, 2021).

The WTO dispute settlement system was designed to depoliticize trade conflicts. In a geoeconomic world, many disputes involve security and strategy, limiting the effectiveness of purely legal adjudication (Davey, 2024).

A reformed system may require a hybrid approach combining adjudication, mediation, and consultative mechanisms, recognizing the limits of law without abandoning a rule-based governance.

Fragmentation, Plurilateralism, and Multilateral Adaptation

Geoeconomics accelerates the shift from universal rule-making toward plurilateral arrangements among trusted partners (Hoekman and Sabel, 2023). Rather than resisting this trend, WTO reform should integrate plurilateralism within the multilateral framework, subject to baseline transparency and openness conditions.

Non-discrimination may need to be reinterpreted as conditional non-discrimination, acknowledging security and trust as relevant criteria while preserving normative ambition.

The transformation required is not simply and incremental adjustment, but a conceptual reorientation (Rodrik, 2018; Tooze, 2024). A geoeconomic WTO would differ from its current one in several fundamental ways: from universal liberalization to managed openness; from efficiency primacy to security–efficiency trade-offs; from legal neutrality to acknowledged strategic diversity; and from static rules to adaptive governance (Rodrik, 2023; Farrell and Newman, 2019).

This does not imply the end of multilateral trade governance. It implies its evolution (Jackson, 1997; Hoekman and Kostecki, 2009).

10. Conclusion: Governing Trade in an Age of Geoeconomics

Geoeconomics confronts the WTO with an existential challenge. The choice is not between preserving liberal order and abandoning it, but between adapting institutions to reality or allowing them to wither into irrelevance.

Trade governance can no longer pretend that security is exceptional, that geopolitics and power are marginal, or that markets are politically neutral. A reformed WTO must integrate these realities while preserving as much predictability, transparency, and cooperation as possible.

The task is difficult, but unavoidable. In a world where trade is a central instrument of strategy, the governance of trade itself must become strategic.

The rise of geoeconomics is transforming international trade law, trade governance, and the operation of the World Trade Organization (WTO). Contemporary trade policy is no longer guided primarily by efficiency-based liberalization objectives, but increasingly shaped by strategic, security-driven, and resilience-oriented considerations. States now deploy trade instruments, such as tariffs, subsidies, export controls, investment screening, and supply-chain measures, not only to regulate commerce but also to pursue broader geopolitical and geoeconomic objectives.

The WTO should now focus on the conceptualization of geoeconomics and its implications for its rules and disciplines. It should incorporate flexibility to expand the use of security exceptions (GATT Article XXI), providing for greater transparency and notification obligations for security-related measures, and the pragmatic use of plurilateral agreements to manage divergence while preserving the multilateral framework. It should review its rules on industrial subsidies, allowing unilateral trade measures, and non-discrimination exceptions. Rather than treating these developments as temporary deviations, WTO members should acknowledge that geoeconomics represents a structural shift in the logic of global trade governance.

The long-term viability of the WTO depends on its capacity to accommodate geoeconomic realities without abandoning legal constraint, predictability, and institutional legitimacy. This means embracing flexibility, so that the WTO is in tune with geoeconomics. To survive, it must be transformed in a "geoeconomic" WTO.

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