

# **Is using trade policy for foreign policy a SNO job?**

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**Presentation for the Queen's Institute on Trade Policy**  
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# Outline of a work in progress

1. Indo-Pacific context
2. Concepts
3. Friend shoring
4. Ukraine and sanctions
5. Linking trade to other objectives
6. Conclusion

# New Comprehensive Strategic Partnership

## Trudeau, South Korean leader discuss threats from Russia and China

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- Strengthen economic security at a time of growing disruption and uncertainty
- Deepen cooperation on supply chain resiliency, critical minerals, and batteries for electric vehicles
- Maintain high labour conditions and environmental standards.

<https://pm.gc.ca/en/news/readouts/2022/09/23/prime-minister-justin-trudeau-meets-president-south-korea-yoon-suk-yeol>

# Part 2. Concepts

# The boundaries of my terms are set wide

- If the intention is to disrupt or enhance transaction flows across a border, it is “**trade policy**”
- The border makes it “**foreign policy**”, which is about managing relations with other states, usually with some strategic objective in view.
- When either one is used for the other, it can be a **SNO**

# What is a SNO?

- Many rationales for agricultural policy, such as environmental protection, have “an essential economic dimension because their achievement diverts scarce resources from other objectives” and so they can be called SNOs - So-called Non-Economic Objective.
  - Winters, L. Alan, 'The So-Called "Non-Economic" Objectives of Agricultural Policy,' OECD Economics Department Working Papers No. 52, April 1988.
- National security, e.g., being able to withstand a food embargo, is a SNO, and agricultural intervention is not the best way to achieve it.
  - Winters, L. Alan, 'Digging for Victory: Agricultural Policy and National Security,' The World Economy 13:3 (June 1990), 170-90.
- We can also identify “so-called non-political objectives”
- Both are SNOs because there are trade-offs: less of one to get more of the other

## And what is a SNO job?

- “Snow job” in colloquial English is a concerted attempt at flattery, or deception, an attempt to persuade someone that something is good or true, when it is not
- In trade policy, a SNO job is an attempt to justify an intervention aimed at one objective by framing it as being valuable for another
- Sometimes it is the persuader hiding the economic or political costs of a measure from themselves

# Foreign policy objectives for trade policy

1. Peaceful international relations
2. Punishing enemies and rewarding friends
3. Building alliances
4. Influencing the foreign or domestic policy of another country

## Example: PTAs

- States can choose their partners for foreign policy reasons
  - Countries are rewarded with a trade agreement, or punished by not having one
- A trade agreement is in effect a “friendship treaty”
  - Can be designed to shore up a relationship that matters for security reasons, or to support a developing democracy.
- Either partner might compromise on a commercial objective to get a deal that they value for its foreign policy benefits

# Trade policy tools for foreign policy involve linkage

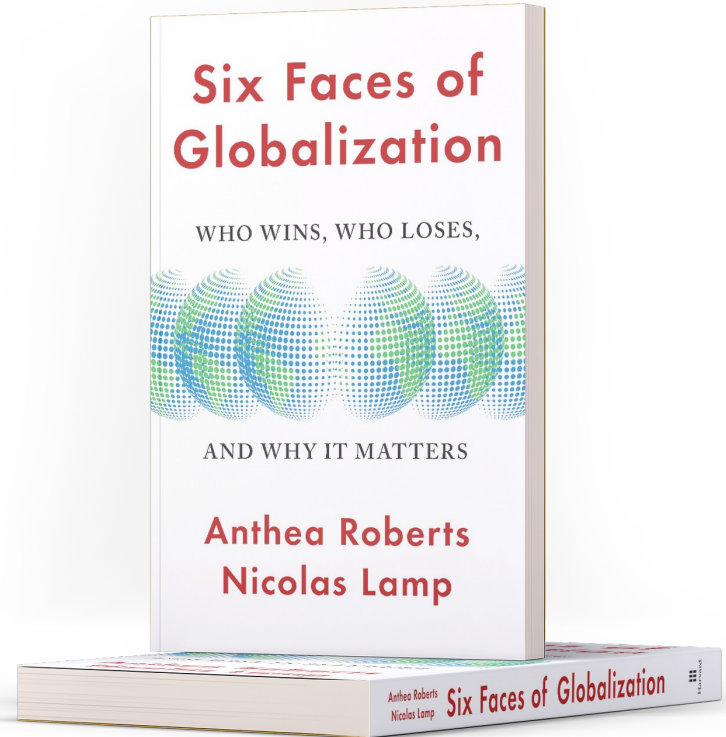
1. Granting or withholding market access
2. Export and import restrictions
  - Export controls on dual use technologies
  - Sanctions and embargos
3. WTO-extra provisions in PTAs
  - Environment, forced labour, drug trafficking...

➤ And friendshoring?

## Part 3. How did we get to friendshoring?

# The “establishment” narrative about globalization

- GATT Articles I and III are trade policy tools for foreign policy
  - non-discrimination principles of MFN and national treatment.
- Golden rule: stability comes from treating others as you would wish to be treated.



# The “geoeconomic” narrative

- Trade policy is subordinate to security concerns
- Shift over the last 15 years or so, due to concerns about the growing economic strength of China
- Tensions in political debates about whether efficiency or security is the more important trade policy consideration

Roberts, Anthea and Nicolas Lamp, (2021) Six Faces of Globalization : Who Wins, Who Loses, and Why It Matters (Cambridge, Massachusetts: Harvard University Press).

# Katherine Tai on shocks to the trading system

*... according to our earlier theory about more trade leads to more peace and prosperity [Russia's invasion] is something that simply should not have happened.*

*One WTO member on this basis and this theory should never have been incentivized to aggressively act out and invade another WTO member.*

(Inside Trade April 2022)



# Chrystia Freeland: we were naïve about globalization

- *We believed that prosperity was the midwife of liberal democracy*
- *That economic interdependence was the best shield against war*
- *We opened our economies to our former adversaries and committed ourselves to building a rules-based system of global free trade.*

## Naïve?



<https://deputypm.canada.ca/en/news/speeches/2022/10/11/remarks-deputy-prime-minister-brookings-institution-washington-dc>

# They must have been thinking about Immanuel Kant

- *The spirit of trade cannot coexist with war, and sooner or later this spirit dominates every people. For among all those powers (or means) that belong to a nation, financial power may be the most reliable in forcing nations to pursue the noble cause of peace (though not from moral motives).*

*Perpetual Peace (1795)*



# Or the founders of the United States

- They believed that
  - the world is divided by monarchies but brought together by the natural interests of nations in trade,
  - reciprocity and national treatment were important values
  - American trade can bring about changes in international behavior
  - commercial sanctions can substitute for military force

Wood, Gordon S., (2009) Empire of Liberty: A History of the Early Republic, 1789-1815



## Or Canadian elites



- O.D. Skelton (for whom Pearson Building lobby is named) was a Queen's Professor and later Under-Secretary of State for External Affairs for 16 years
- *I think you would find that matters of trade, of commerce—economic questions—bulk very large in foreign policy.*  
speech to the Canadian Club of Ottawa in 1922

## One of the people Skelton recruited, in 1927

*If, however, we no longer stress so much economic factors as the direct cause of war, that does not lessen their importance in the maintenance of a creative and enduring peace. Men may not now go to war for trade, but lack of trade may help to breed the conditions in which men do go to war.*

Lester B. Pearson, The Four Faces of Peace, Nobel Lecture, 1957

\*

# The long shadow of the 18<sup>th</sup> century

- These ideas have persisted for more than two centuries
  - It's not a scientific law that can be falsified by one invasion
- Demonstrably influenced the founders of the GATT, and not just Americans

Irwin, Douglas A., Petros C. Mavroidis and A. O. Sykes, (2008) The Genesis of the GATT (New York: Cambridge University Press).
- Cold War paradox:
  - Foreign policy concerns underpinned necessary commercial compromises in 1947
  - But isolation of USSR (and China) turned GATT into a western club

# Is the 18th century shadow fading?

- Post-war American policymakers saw commercial policy as a crucial tool in fighting communism and building a stable international order.
  - Used to frame many trade deals
- By the 1990s with the Cold War over, the political salience of foreign policy considerations had diminished considerably.
  - Irwin, Douglas A, (2017) Clashing over Commerce : A History of US Trade Policy
  - Hence travails of TPP and TTIP in Congress
- BUT Hillman says IPEF motivated by national security...

# Back to the future with friend-shoring?

Janet Yellen says

- the multilateral objective should be to achieve free but secure trade.
- Favoring the friend-shoring of supply chains to a large number of trusted countries will prevent others using *“their market position in key raw materials, technologies, or products to have the power to disrupt our economy or exercise unwanted geopolitical leverage.”* April 2022



# Trade policy in the service of foreign policy?



<https://deputypm.canada.ca/en/news/speeches/2022/10/11/remarks-deputy-prime-minister-brookings-institution-washington-dc>

- *Friendshoring is a conscious effort to build our supply chains through each other's economies*
  - How? (think critical minerals...)
- *We should design our procurement and incentive programs with friendshoring in mind*
  - GPA? SCM?
- *Should also mean standing up for each other in the face of economic bullying from the world's dictators*
- Institutional implications...?

# Echoes of the Cold War in the WTO

- At MC12 three dozen delegations including U.S., EU, Canada and others walked out before Russian economic minister spoke
- Same group suspended process of Russian accession to GPA and Belarus accession to WTO
- DG said that using small groups of members was needed in order to allow talking to continue without more boycotts.



## Traditional justification from many of them

*Russia's hostile act is... a blatant violation of international law and the rules-based international order. ... Canada is acting to protect its essential security interests, which are inextricably linked to that rules-based international environment. In addition, Canada will continue to work closely with like-minded partners to promote peace and security for all states and their citizens.*

WTO Council for Trade in Goods, April 2022 G/C/M/142

- How does that apply to China?
  - Risk is that friend shoring undermines multilateral institutions with new isolation of “non-friends”

# Part 4. Ukraine and sanctions

# Is Ukraine a game changer?



- Sanctions are “*a new kind of economic statecraft with the power to inflict damage that rivals military might*”. (Joe Biden, April 2022)
- Not so fast:
  - Used since the 19<sup>th</sup> century
  - Sanctions on Russia began in 2014 after Crimea

# Who are sanctions aimed at?

- Actors of interest: country, or ministers, a state agency, firms or citizens
- In the Russia case
  - Some tools designed to hurt individuals presumed to be influential with Putin.
  - Others are more traditional designed to impede his ability to wage war.
  - Message to civil society: we have not forgotten you?
  - Or domestic signal that we are doing all we can?
- All a form of linkage

# Part 5. Linking trade to other objectives

## New trade policy objectives

- Many PTAs include both WTO+ measures that build on existing WTO rules, and WTO-X (extra) chapters that go beyond existing rules
- Assume that all WTO+ measures are economic
- Some WTO-X provisions have an apparently non-economic objective
  - SNOs?

## The list is long

- Non-Trade Policy Objectives in EU agreements include:
  - **civil and political rights**
  - **security issues**
  - **economic and social rights**
  - **environmental protection**

Borchert, Ingo, Paola Conconi, Mattia Di Ubaldo and Cristina Herghelegiu, (2021) 'The Pursuit of Non-Trade Policy Objectives in EU Trade Policy,' World Trade Review 20:5 623-47.

- WTO-X provisions in a wider group of PTAs include
  - **visa and asylum**, political dialogue, illegal immigration, **cultural cooperation**, money laundering, health, nuclear safety and civil protection.

Mattoo, Aaditya, Alen Mulabdic and Michele Ruta, (2017) 'Trade Creation and Trade Diversion in Deep Agreements,' World Bank, Policy Research Working Paper WPS8206, September 2017.

# Why are WTO-X issues included in PTAs?

- Linkage
  - Perhaps either party needs a side payment to mollify a domestic constituency
    - May help if it increases the set of issues over which parties can bargain
- Limão, Nuno, (2007) 'Are Preferential Trade Agreements with Non-Trade Objectives a Stumbling Block for Multilateral Liberalization?,' The Review of Economic Studies 74:3 821-55.
- Perhaps the stronger state is using trade as a tool to achieve foreign policy objectives

## Does the Tinbergen Rule apply? (Alan Beattie)

- One target, one tool
- When trade policy is foreign policy, do all these SNOs provide too many targets for the available tools?

## Part 6. To conclude

# Trade policy is overdetermined

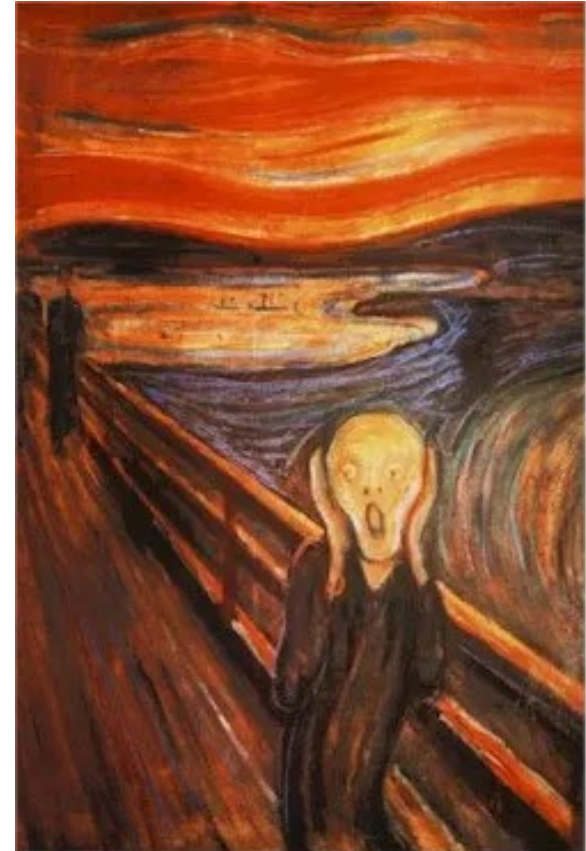
- Every commercial policy decision can be shown to have a political motivation
- Political objectives can hide protectionist motivations
  - TPP? Hard to disentangle U.S. foreign policy from trade motivations
  - India? Imperative to keep them on board with respect to China and Russia means U.S. and allies keep talking trade with them

## Is friend shoring a SNO job?

- Friendshoring is a policy direction not an economic choice
- A SNO job because it has a cost, which is susceptible to analysis
  - Even if the cost proves to be worth paying...

# The angst of trade negotiators

- Is there still a role for traditional trade deals???
- Many proposed agreements are not economically important
  - Better to use non-trade tools for non-trade objectives?
- Or is trade policy always fundamentally foreign policy?



# And in the end...

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- Is the New Comprehensive Strategic Partnership a SNO job after all?