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From Efficiency to Security: Managing the Realist Turn in Trade Policy

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The dominant logic of international political economy is shifting. Concepts such as “geoeconomics,” “economic security,” and “friendshoring” increasingly frame trade policy, reflecting a more contested global environment. As strategic rivalry intensifies, economic interdependence is no longer viewed primarily as a source of efficiency, but as a source of vulnerability and leverage. Many of the instruments associated with this realist turn – export controls, investment screening, industrial policy, and supply-chain diversification – are not new. What has changed is their scale, reach, and justification. Tools once used selectively are becoming structural features of economic governance. This shift is also affecting international institutions. While the liberal institutional order remains intact in formal terms, realist considerations are increasingly shaping behaviour within organisations such as the World Trade Organisation (WTO). The result is not yet a full paradigm shift, but a paradigm drift. Liberal rules continue to structure most global trade, yet their authority is eroding. Preventing further fragmentation requires targeted efforts and pragmatic institutional reinforcement: reviving the positive narrative around integration, embracing plurilateralism as a second-best solution, and implementing bold reforms to preserve the WTO’s relevance.

Since the early 20th century, the international trading system has been sustained by a simple promise: that trade liberalisation would deliver prosperity through greater efficiency and that economic integration would lead to stability and peace. Today, that promise looks increasingly fragile. Terminology such as “geoeconomics,” “weaponised interdependencies,” and “friend-shoring,” which revives realist thinking, has replaced rhetoric supporting multilateralism, the reduction of trade barriers, and the promise of mutual gains. Export controls, industrial policies, and security-oriented supply-chain strategies signal that international political economy (IPE) is undergoing not only a rhetorical shift, but also a policy one. Are the current shifts in trade indicating that realism now constitutes the dominant policy paradigm in IPE?

Policy Paradigms in International Political Economy

A policy paradigm is not merely a set of ideas, it is an interpretive framework through which policy makers define problems, set goals, and determine which instruments are legitimate. Paradigm shifts

occur when mounting anomalies arise which violate the assumptions of the dominant paradigm, triggering a fundamental reordering of the assumptions, principles and governing logic of policy-making.

Ideas shape how policy makers understand trade.

A policy paradigm shift unfolds across three distinct stages. First, “framing dominance” emerges when a new paradigm reshapes how policy makers define problems, set objectives, and justify action. It establishes the cognitive lens through which policy is interpreted. Second, “policy instrument dominance” occurs when policy tools are redesigned or newly created in line with the paradigm’s underlying logic. At this stage, ideas move beyond rhetoric and become embedded in concrete instruments that structure decision-making across administrations. Third and finally, “institutional dominance” is reached when the paradigm’s principles are codified in rules, procedures, and organisational mandates. Each stage is progressively harder to reach but also more permanent. Framing can shift quickly; however, instruments embed

change across administrations, and institutions generate even stronger hysteresis. Crucially, a paradigm shift is not complete until its adherents capture positions of authority and institutionalise its principles.

Realism and liberal institutionalism are two competing policy paradigms. Liberal institutionalism has been the dominant paradigm since the end of the Cold War and is associated with thinkers such as Robert Keohane and Joseph Nye. The paradigm sees states driven mostly by economic concerns and trade as a positive-sum game, leading to efficiency and welfare gains for all parties. Institutions are seen as crucial to overcoming collective action problems by constraining short-term protectionist incentives. Whilst security concerns are not absent from the paradigm, it is economic interdependencies through trade that are expected to lead to peace and stability.

Recent trade policy, however, increasingly evokes realist thinking, which understands inter-state behaviour as a battle for survival in an anarchic world, with power and security concerns trumping all others. Realist logic was first formalised by Hans Morgenthau in the mid 20th century but has been resurrected by prominent scholars of today such as John Mearsheimer. According to this logic, trade is a zero-sum game, and therefore each state's foreign policy decisions are shaped by their relative power.

Interdependence is increasingly seen as vulnerability.

Despite recent policy action, realism has not yet displaced liberal institutionalism as the dominant paradigm in IPE. Applying the three stages of paradigm dominance reveals that we are witnessing a paradigm drift rather than a complete paradigm shift. Whilst realist policy framing has become dominant and realist policy instruments are proliferating, old policy instruments associated with the liberal institutionalist order maintain significant relevance and realist logic is yet to dominate international institutions. Thus, the liberal order remains, although the conditions for its displacement are accumulating.

Policy Framing Dominance: Realist Rhetoric has Prevailed

The liberal institutionalist conviction that trade liberalisation would foster prosperity and peace was encapsulated in the formula “Change through Trade” (Wandel durch Handel). At its core stood the assumption that openness enhances efficiency, and that trade and prosperity in turn underpin security and peace. Over time, however, the efficiency rationale that underpinned early liberalisation receded from policy discourse. Even

before the current security turn, a gradual shift was underway. While strategies such as the Lisbon Strategy (2000) and Global Europe (2006) continued to endorse openness, their economic narrative increasingly emphasised “competitiveness.” This subtle reframing signalled an internal drift within the liberal paradigm – from welfare maximisation toward strategic positioning – well before security concerns moved to the forefront.

Paradigms shift when ideas reshape institutions.

In recent years, however, major economic powers have shifted the framing of policy problems and policy goals towards more explicit security orientation. China has been treated as a “long-term strategic competitor” in official U.S. government strategy documents since 2017, which points to the type of zero-sum logic that typifies realist thinking. More recently, the USTR's 2025 Trade Policy Agenda explicitly refers to a “realist trade policy” (p1) and highlights the importance of a production economy as a component of national defence, showing that economic policy is being thought of in security terms. Indeed, the rhetoric of U.S. President Donald Trump suggests that he regards military dominance as an end, rather than simply a means to promote interests and values, pointing more clearly to a paradigm shift in policy framing.

A similar process is underway in the EU. The recent European Economic Security Strategy (June 2023) frames trade dependencies as economic risks, which is directly at odds with the liberal institutionalist logic that interdependencies are stabilising. Indeed, the increasing prominence of security and foreign policy goals in economic policy initiatives can be seen through Commission President Ursula von der Leyen's embrace of the idea of a “geopolitical” commission in 2019. However, the European Commission's goal of “open strategic autonomy,” shows that there is still an attempt to reconcile competing realist and liberal logics, with security goals balanced against efficiency concerns. Even the Security Strategy itself maintains an orientation towards openness, showing that liberal institutionalist policy framing has not yet been completely usurped in the EU, in contrast to the United States.

Policy Instrument Dominance: A Shift is Underway

The shift in policy framing has also filtered down into the actions of states. Thus, new policy instruments have been adopted with explicit security goals in recent years. The UNCTAD 2025 Investment Policy Report highlights that at least 46 countries instituted investment screening mechanisms by the end of 2024, compared to only 21 in 2015, with countries invoking the protection of

national security as the rationale. Additionally, the number of Technical Barriers to Trade (TBTs) notifications submitted to the WTO referencing national security hit an all-time high of 95 in 2025.

New EU policy instruments include the Critical Raw Material Act and the Anti-Coercion Instrument, whilst the United States is prohibiting U.S. semiconductor makers from expanding their Chinese manufacturing operations if they access funding under the CHIPS Act, and signing executive orders banning investors from obtaining shares in Chinese military companies. All these policies, which seek to re-route trade and investment from trading partners viewed as threats to those viewed as allies, clearly demonstrate security dominating over efficiency concerns.

The WTO remains the backbone of global trade.

The United States’s relationship with China is a case in point: Liberal institutionalist logic was exemplified by the Washington’s policies towards China from the 1980s to the early 2000s, including granting China MFN (Most-favoured Nation) status and spearheading the country’s accession to the WTO. U.S. policy makers believed that encouraging China to join the multilateral system would deepen interdependence, diffuse liberal norms, and generate mutual gains, directly contravening realist logic which would aim to contain a growing rival. Washington’s shift to a combative approach to Beijing tracks closely with China’s rise as a global power, reinforcing the thesis that realist concerns are now in the driving seat.

Another example is the changing nature of trade agreements. Whilst the old style of preferential trade agreement (PTA) was comprehensive and even entailed regulatory integration, a new style of PTAs has taken on a thinner and more transactional style, aligned with strategic priorities such as securing access to certain inputs, critical minerals or strengthening specific supply chains. One example of this is the U.S.-UK Economic Prosperity Deal of 2025, which is a limited bilateral agreement focusing on tariff reductions for specific goods, rather than a comprehensive trade agreement. This new style of PTA resembles mercantilist tariff bargaining based on realist logic rather than integration. At the same time, PTAs in the old style remain significantly more economically relevant due to the

amount of trade that they cover. Indeed, most of the mega-regional PTAs such as the EU, CTPP and RCEP have required deep integration. Therefore, whilst new, realist policy instruments are springing up quickly, the old instruments that embed liberal logic maintain greater economic significance.

Institutional Dominance: Liberal Rules Still Dominate

The WTO is the cornerstone of the liberal international order in trade and seeks to improve the welfare of people around the world by enhancing the economic efficiency of the global trading system. It has been responsible for institutionalising norms to achieve this goal; for example the MFN principle states that members must extend any trade advantage granted to one trade partner to all other partners, ensuring non-discrimination. Additionally, the creation of the Appellate Body, which provides a binding resolution for trade disputes, was intended to insulate trade policy from foreign policy concerns, showing the clear segregation between economic policy and security concerns at the heart of the WTO. The institutionalisation of norms is crucial for reducing uncertainty and ensuring collective action, both of which are key to unlocking efficiency.

Change through trade is losing credibility.

Some argue that the WTO is becoming increasingly irrelevant, however. Indeed, the MFN principle has been undermined by the new transactional style of PTAs, national security exemptions, and industrial policies not covered, and the failure of the Doha round means that many important and emerging trade issues have been left unresolved. Steps have been taken by Washington to weaken the WTO – the Appellate Body has been obstructed, Trump has expanded the scope of “national security” to include “economic security,” and is now claiming that invocations of national security are non-reviewable. Additionally, the United States recently filed submissions on WTO reform that are critical of the MFN principle, arguing that it no longer reflects today’s economic reality and that it may be time to allow members to conclude “mutually beneficial agreements that may not extend to every Member.” Despite this, a WTO Staff Working Paper (2025) found that over 80 percent of global trade in goods still took place under MFN rules in 2022, and national security exemp-

tions remain the exception, and not the rule. Indeed, whilst its legitimacy may be diminished, no serious steps have been taken to rewrite WTO rules, treaties or principles, and no alternative institutions have been proposed.

A Paradigm Drift but not yet a Paradigm Shift in IPE

Recent more radical shifts in policy rhetoric and instruments show a clear realist logic, with their genesis in the growing power struggle between the United States and China. The fact that the United States, the world's hegemon and previous upholder of the liberal institutionalist paradigm, is no longer fighting for it but driving actively against it shows how far the locus of authority has shifted towards realism. However, liberal institutions and the efficiency-logic enshrined in them still dominate actual trade flows.

Liberal institutionalists should not be sanguine about the future, however. Whilst the WTO's principles maintain power, the Trump administration may have opened Pandora's Box on national security exemptions, and as unwritten norms get overturned, a complete paradigm shift may become increasingly difficult to thwart.

A paradigm drift, not yet a paradigm shift.

The EU is now the de-facto vanguard of the liberal order. In order to defend it, it must take steps to stabilise the paradigm across the three stages of dominance:

1. **Policy Framing: Reclaim the rhetoric.** Current EU framing risks feeding the narrative that the rules-based order is

dead, and this could be a self-fulfilling prophecy. Instead, the EU must frame trade as positive-sum-game and underline the benefits of economic integration.

Liberal trade rules still structure global commerce.

2. **Policy Instruments: Embrace Plurilateralism.** Multilateralism has been challenged, but there is still the opportunity to continue to embed liberal logic through plurilateral agreements. The EU should keep pushing for deeper integration with a coalition of the willing.
3. **Institutions: Be bold about reforming the MFN principle.** The crisis of the Appellate Body occurred, in part, because the EU did not engage seriously with the complaints of the United States until it was too late. The EU should learn from this by pushing forwards with bold reforms of the MFN principle at the upcoming WTO Ministerial Conference, rather than allowing it to become increasingly undermined and irrelevant.

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