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Improving NATO's Economic Resilience: Lessons from Lithuania and the Case for Collective NATO Economic Security

When it opened its Taiwanese Representative Office in 2021, Lithuania directly violated the One China Policy in the eyes of Beijing. There wasn't a full-blown military response, but an economic one. Supply chain complications surfaced, and trade volumes decreased. This moment revealed the intricate connection between economics and diplomacy. However, while the E.U. initiated trade policy mechanisms, such as the Anti-Coercion Instrument (ACI), NATO stood aside, not due to indifference, but because economic security, in general, lies slightly outside of its scope of challenges[1]. This raises several important questions: Should military alliances adapt to address issues related to economic interdependence? If so, how can all NATO nations pursue pathways toward compromise and agreement on strategies to combat geopolitical risk exposure?

The 2021 Lithuania case represents a perfect example of this issue: maybe one of the real problems at hand is a lack of effective communication and economic cooperation within NATO. This case revealed that member nations within NATO have varying and sometimes contradicting approaches towards economic disruptions that result from diplomatic tensions. This entry investigates the shortcomings of NATO nations collectively agreeing on how to tackle economic disruptions from foreign adversaries. It supports the notion that all NATO nations must pursue pathways towards compromise and agreement on strategies to combat geopolitical risk exposure, with Lithuania's experience showcasing lessons and urgency.

The opening of the Taiwanese Representative Office in Lithuania in 2021 was not an overly sensational or dramatic episode, but an example of how trade relations and security are more deeply intertwined than we may have previously perceived. In the modern global world order, economic statecraft, investment, trade, and the use of policy mechanisms have become common instruments for influence[2]. Interdependence has also made its way into the many crucial components of economic statecraft. Nations rely on each other for integral geopolitical factors: trade policy, shipping routes, and investment flows. This is generally a beneficial thing, but when political tensions arise, nations can leverage their economic relationships in ways that can lead to potential asymmetric economic pressure or disrupted ties. There are several examples of this in addition to the 2021 Lithuania case with Beijing.

Economic Disruption Around the World

In 2019, there was a historical dispute between South Korea and Japan that escalated into a trade war. Because of worries that critical technology exports may have leaked into North Korea, Japan decided to limit certain chemical exports to South Korea, leading to demonstrations and boycotts of Japanese products. This led to Japan removing South Korea from its whitelist of nations that do not need approval for the trade of certain dual-use products and chemicals, as well as South Korea labeling Japan as an unfavorable country that does not follow international norms. This connects back to a deeper issue of a lack of recognition of identity between South Koreans and the Japanese, where the South Korean Supreme Court wanted Japanese companies to compensate for forced labor and violence during the Japanese occupation of Korea in the first half of the twentieth century[3]. The incident represents another critical example of how trade became a tool for economic pressure, showing that exploitation can occur from friends and foes alike. Trade ties can become a juncture of tension. Economic statecraft in the modern world has become an element of the playbook, even with other allies.

Australia met similar trade challenges with Beijing in 2020 after attempting to investigate the origins of COVID-19. This, in turn, led to trade restrictions on various Australian exports and trade barriers from Beijing. There were tariffs on exports such as wine, barley, coal, beef, etc. These were portrayed as quality or regulatory issues, but this was questioned by the political message and timing. Australia remained resilient, however, and increased its exports to other countries. Even though they struggled at first, they became closer trade partners with nations such as Malaysia, Singapore, and Thailand. This represents another case study illustrating the strong interconnection between economic pressure and diplomacy.

Why This Issue Matters

It is clear from these examples that this is not just a peripheral problem for NATO. This alliance was not originally built for economic disruptions and trade pressures, but rather for collective defense against the increasing influence of the Soviet Union in post-World War II Europe, and now against the Russian Federation. In our modern world, however, the ability of any nation to stand its own ground does not depend only on military might, but also on the resilience of its internal economic systems when they are met with diplomatic challenges[4]. NATO does not have sufficient tools for this, and the Lithuania incident is a case in point.

This does not mean that NATO needs to have an economic union. It does, however, need to understand how economic setbacks can lead to strategic gaps and divisions among alliances and commitments. If one NATO nation is pressured by a foreign power and other members do not effectively assist or respond, then the idea of collective defense becomes ambiguous. The credibility of NATO relies not only on how to respond to military threats, but also to economic disruptions similar to Lithuania. This isn't simply a peripheral concern for NATO. Even though the alliance was originally built for traditional military defense (troops, missiles, bombs, tanks), a nation's ability to remain completely grounded depends on much more than military might. In a world where many nations have nuclear weapons and can collectively end mankind as we know it, modern regimes that have increasing desires of exploitation and expanding their spheres of influence must be more creative in their controlling propensities. Therefore, extensive coordination among allies for strengthening economic resilience is key. It is crucial for perseverance during the escalation of diplomatic tensions.

It is clear that NATO lacks the specific tools for upholding economic resilience and has been largely silent on economic disruptions[5]. While other alliances, such as the E.U., have focused on economic resilience more broadly as it relates to broader stability efforts, NATO must address economic resilience as a primary element of collective defense. Protecting other members should extend beyond military readiness and into disruptions in critical infrastructure, financial systems, and supply chains, as was the case with Lithuania in 2021. This doesn't mean that NATO has to revamp completely, but that it should make concerted efforts to evolve gradually.

Suggestions for Moving Forward

Better communication and coordination are key for change. NATO could start by prioritizing more open dialogue among member states about economic disruptions. This would indicate crucial weaknesses and dependencies and improve support for resilience planning[6]. During instances of economic disruption, NATO does not necessarily need to prepare for retaliation; rather, it just needs to be ready. Lithuania's experience, in addition to the other examples mentioned, is proof that geopolitical disruptions and threats can be quiet. The subtlety of these events can send powerful messages in their own ways.

NATO must treat these disturbances similarly to the way that it treated the 2007 Estonia cyberattacks: as an ever-present threat to a member nation's stability, autonomy, and position on the world stage. If export pressure and supply chain disruption can be used to weaken a NATO member state, then this goes beyond pure economics and into unity and strategic resilience. Communicating the disruption is the definitive first step in approaching this issue.

With NATO's intelligence-sharing mechanisms primarily designed for cyber and military threats, there must be an institutionalized, dedicated warning system for economic disruption. Currently, NATO has limited capabilities in hybrid threat and economic monitoring, but not a specialized institutional framework dedicated specifically for foreign investment pressure, export disruptions, or trade retaliation[7]. Developing a new sophisticated system would not necessarily need trade authority or new treaties. This could either be a classified or semi-open mechanism where NATO member states can signal strange investment or trade activity that might signify disruption or pressure. This would include a reporting of coercive targeting of companies, export restrictions, or secondary sanctions. It would be a mechanism necessary for indicating a problem at hand and communicating it clearly to other member states. If Lithuania had access to this type of mechanism during the incident in 2021, there likely would have been more motivation from other NATO members to support Lithuania through her adversity, giving the country more leverage to stand up for herself.

This case is proof that nations like Lithuania have been facing these types of pressures mostly on their own. Unfortunately, there is no default pre-defined process for economic backup. However, what if NATO were able to support diplomatic or legal cooperation to reduce the fallout for private companies that are caught in the middle? What if it helped assist in workarounds for businesses or temporary sourcing shifts for critical goods? In Lithuania's case, or in another even more severe situation, the need for assistance in finding other suppliers for major businesses as backup is crucial. Even something symbolic, such as giving political statements of support, would be more subtle but would also go a long way, telling the world that they're not just standing by and watching.

Often the biggest risk to the survival of large alliances or organizations is internal, not external. When member states do not make more of an effort to discuss economic disruptions and ways to better approach them, this makes exploitation from abroad much easier. While NATO won't be able to solve this overnight, it can absolutely push for more transparency between member states. This would most likely involve the need for more open reporting on resource and product dependencies, such as energy links, raw materials, ownership of infrastructure abroad, etc[8]. It would also mean a need for better communication on which firms operating in a given state are most exposed to pressure if another diplomatically problematic incident occurs, as well as more regulation on outbound investment screening. This is essential for NATO nations to not leave other members vulnerable and to fend largely for themselves.

While NATO currently runs discussion-based simulations and war games, it could also start bringing in economic scenarios. What would happen if a NATO member was suddenly affected by trade restrictions or a block from strategic goods? These are both likely and potential events in our modern geopolitical order. If NATO can start implementing preparations for economic disruptions in simulations and table-top exercises, members such as Lithuania will be even more resilient. Political and military leaders who may view this as someone else's work could also gain greater awareness and skills in dealing with economic issues.

So far, it's clear that the E.U. is currently better equipped for handling economic security. However, NATO's strengths, including military planning, intelligence gathering, and a security-first mindset are where the E.U. arguably falls short. The connection between the two must be strengthened, as the E.U. has been slow to share its economic capabilities with NATO, and NATO has not treated economic disruptions as major security issues. This dangerous combination displays major weaknesses in both institutions; when one ally sees pressure coming, they should prioritize warning the other. This would create a focus on resilience rather than trying to initiate any form of loud economic retaliation. Reducing the effects of economic pressure would include focusing on diversifying trade partners and ensuring supply chain redundancy, allowing for keeping systems in place when potential disruptions arise[9]. This type of preparedness would allow nations such as Lithuania to resist inflicted economic adversities more easily.

Conclusion

Lithuania's experience with economic disruption in 2021 represents both a warning and major institutional gaps that must be paid more attention. It provides a more clear view as to how power dynamics work in the twenty-first century, and also shows how organizations like NATO should evolve before even more serious economic challenges occur. It should be mentioned that NATO doesn't need to become an economic alliance, rather that it can no longer sit back and ignore economic security issues[10]. We live in a modern world where power is exercised through ports and infrastructure, not just conventional military might, and NATO members must all collectively be ready for the next pressure point.

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