

The New Geography of Globalization

How Economic Security, Industrial Policy and Geopolitical Fragmentation Are Rewiring World Trade

Trade, Investment, Technology, Supply Chains and Strategic Interdependence in a Fragmenting Global Economy

Academic Research Monograph and Strategic White Paper

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This monograph examines whether the global economy is deglobalising or being reorganised into a more strategic form of interdependence. It integrates current evidence on trade, foreign direct investment, industrial subsidies, supply-chain concentration, regional agreements, digital services, technology controls and economic-security policy. The study develops original frameworks for measuring reconfiguration, dependency, substitutability and resilience; evaluates regional and sectoral pathways; and stress-tests the global trading system through alternative scenarios to 2040.

Abstract

The global economy is not retreating from cross-border exchange in any simple sense. In 2025, the value of world trade in goods and services reached a record level above US\$35 trillion, while foreign direct investment rose to approximately US\$1.6 trillion. At the same time, the institutional and geographic logic of trade and investment is changing. Strategic sectors absorb a rising share of greenfield investment, governments are using industrial policy more actively, foreign-investment screening is expanding, export controls and critical-input restrictions have become more prominent, and firms are reorganising supply chains around resilience as well as cost. (European Commission, 2026a; OECD, 2026d; UN Trade and Development, 2026a, 2026c)

The central thesis of this monograph is that the defining feature of contemporary globalization is not deglobalisation but **strategic reconfiguration**. Production, capital and technology remain internationally distributed, yet states and firms increasingly ask a second question alongside efficiency: which dependencies are acceptable under stress? This shift changes the geography of trade because cost minimisation is no longer the only organising principle. Political alignment, security, supply concentration, logistics, energy reliability, access to technology, regulatory compatibility, domestic political durability and the ability to substitute suppliers now influence location decisions.

The distinction matters. A world in which all states attempt broad self-sufficiency is economically different from a world in which countries preserve open trade while diversifying selected chokepoints. OECD modelling estimates that extensive relocation could reduce global trade by more than 18 percent and global real GDP by more than 5 percent, without producing consistent improvements in resilience. WTO modelling reaches a related conclusion from a different angle: a geopolitically fragmented world could reduce global GDP by 5.1 percent and global exports by 18.6 percent relative to its baseline, while a world in which multilateral cooperation is replaced by a network of free-trade agreements could generate still larger losses. (OECD, 2025; World Trade Organization, 2026d)

These estimates do not imply that all interdependence is benign. Trade networks can create asymmetric power. Highly concentrated nodes in finance, technology, logistics, raw materials or digital infrastructure can become strategic chokepoints. The literature on weaponised interdependence explains why network centrality can translate into coercive leverage when a state has jurisdiction over critical hubs. (Farrell & Newman, 2019) Contemporary policy therefore faces a genuine trade-off: the same specialisation and scale economies that generate efficiency can also produce dependency.

The study develops an original **Strategic Interdependence Framework** built around eight dimensions: economic importance, concentration, substitutability, switching time, geopolitical exposure, policy exposure, domestic adjustment capacity and network centrality. It also proposes a **Globalization Reconfiguration Index** for research use, a supply-chain dependency graph, a resilience maturity model, a forty-eight-indicator early-warning dashboard and a set of testable

research hypotheses. These tools are intended for governments, universities, firms, investors and international institutions.

The monograph does not treat industrial policy as inherently effective or inherently harmful. Recent scholarship finds stronger empirical support for targeted industrial policy than older debates often acknowledged, especially where externalities, coordination failures, learning effects or scale economies are present. At the same time, new IMF modelling finds that recent subsidy and tariff packages can lower global welfare when interventions are poorly targeted or generate cross-border distortions. (Juhász et al., 2024; Rotunno et al., 2026) The policy question is therefore not whether industrial policy exists. It is whether objectives, instruments, governance, exit rules and international spillovers are disciplined enough to justify its costs.

The development implications are substantial. WTO analysis suggests smaller and poorer economies face disproportionate losses from a breakdown of rules-based trade. UNCTAD reports that strategic-sector investment is growing rapidly but remains highly concentrated: strategic sectors accounted for 44 percent of global greenfield project value in 2025, up from 16 percent in 2020, while low- and lower-middle-income economies captured only a limited share of this investment. (UN Trade and Development, 2026b; World Trade Organization, 2026d) A new geography of globalization could therefore create opportunities for connector economies, regional hubs and new industrial locations while also deepening exclusion for countries lacking infrastructure, skills, finance and institutional capacity.

The principal conclusion is that the world is moving from **efficiency-first globalization** toward **managed strategic interdependence**. The decisive policy challenge is not to eliminate dependence. It is to identify which dependencies are systemically important, diversify where concentration is dangerous, preserve the gains from open exchange where risks are manageable, and build domestic adjustment institutions strong enough to sustain openness politically.

Keywords: globalization, geoeconomic fragmentation, industrial policy, economic security, global value chains, friend-shoring, near-shoring, trade policy, foreign direct investment, strategic sectors, supply-chain resilience, multilateralism, WTO, subsidies, tariffs, digital trade, services trade, strategic interdependence, development, regional trade agreements.

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Executive Synthesis

The global economy of 2026 presents an apparent contradiction. Cross-border trade remains enormous, foreign investment continues to move across jurisdictions, multinational production networks remain deeply integrated and digitally delivered services continue to expand. Yet the language of economic policy has changed. Governments increasingly speak about resilience, strategic autonomy, national security, trusted partners, critical technologies, strategic sectors and supply-chain concentration. Firms increasingly assess geopolitical exposure alongside labour cost, market access and logistics. Investors increasingly distinguish between ordinary commercial risk and policy-driven discontinuity.

The contradiction disappears once globalization is separated into two dimensions: **volume** and **architecture**. The volume of international exchange remains high. The architecture through which that exchange is organised is being redesigned.

World trade exceeded US\$35 trillion in 2025 according to UNCTAD. The WTO reports that 72 percent of global merchandise trade still moves under most-favoured-nation tariff terms, an important indication that the multilateral system continues to structure a large majority of goods trade. Services are becoming more important, with digitally deliverable services and AI-related goods contributing strongly to recent trade growth. (UN Trade and Development, 2026a; World Trade Organization, 2026e, 2026a)

At the same time, investment is concentrating in strategically sensitive sectors. UNCTAD reports that strategic sectors accounted for 44 percent of global greenfield investment value in 2025 compared with 16 percent in 2020. Global FDI increased to US\$1.6 trillion, yet more than 80 percent of FDI went to the top twenty host economies. (UN Trade and Development, 2026c) The geography of investment therefore remains international but is becoming more selective.

Industrial policy is also returning at scale. The OECD's 2026 MAGIC database estimates industrial subsidies of US\$108 billion in 2024, the highest level since the global financial crisis, with solar equipment, semiconductors and heavy industries among the most subsidised areas over the broader 2005-24 period. (OECD, 2026d) The return is not confined to one economy or one political model. Advanced economies, emerging markets and developing economies use different mixes of subsidies, tariffs, procurement rules, investment screening, local-content requirements, tax incentives, export controls and state finance. (Evenett et al., 2024)

The shift is driven by five structural changes.

First, the economic cost of supply disruption became more visible after repeated shocks. Pandemic disruption, transport bottlenecks, geopolitical conflict, energy volatility and shortages of specialised inputs demonstrated that a supply chain optimised only for average cost may perform poorly under stress.

Second, strategic technologies rely on concentrated production networks. Semiconductors, AI infrastructure, critical minerals, batteries, specialised machinery and advanced materials involve

scale economies and deep supplier ecosystems. Concentration can be efficient in normal times while creating strategic exposure in abnormal times.

Third, interdependence can create leverage. The network structure of the global economy allows jurisdictions that control central nodes to influence access to technology, finance, logistics or data. (Farrell & Newman, 2019)

Fourth, domestic political support for globalization cannot be treated as automatic. Research on trade adjustment shows that aggregate consumer gains can coexist with long-lived local labour-market losses. (Autor et al., 2016) Political research also shows that backlash depends on the interaction between economic shocks, political institutions, identity, policy narratives and distributional outcomes rather than a single anti-trade preference. (Naoui, 2020; Walter, 2021)

Fifth, climate, digitalisation and AI are changing the composition of trade itself. WTO simulations suggest AI could materially increase trade and global output over the long term, particularly through digitally deliverable services. (World Trade Organization, 2026e) This means the next phase of globalization will not simply replicate the manufacturing-led model of the late twentieth century.

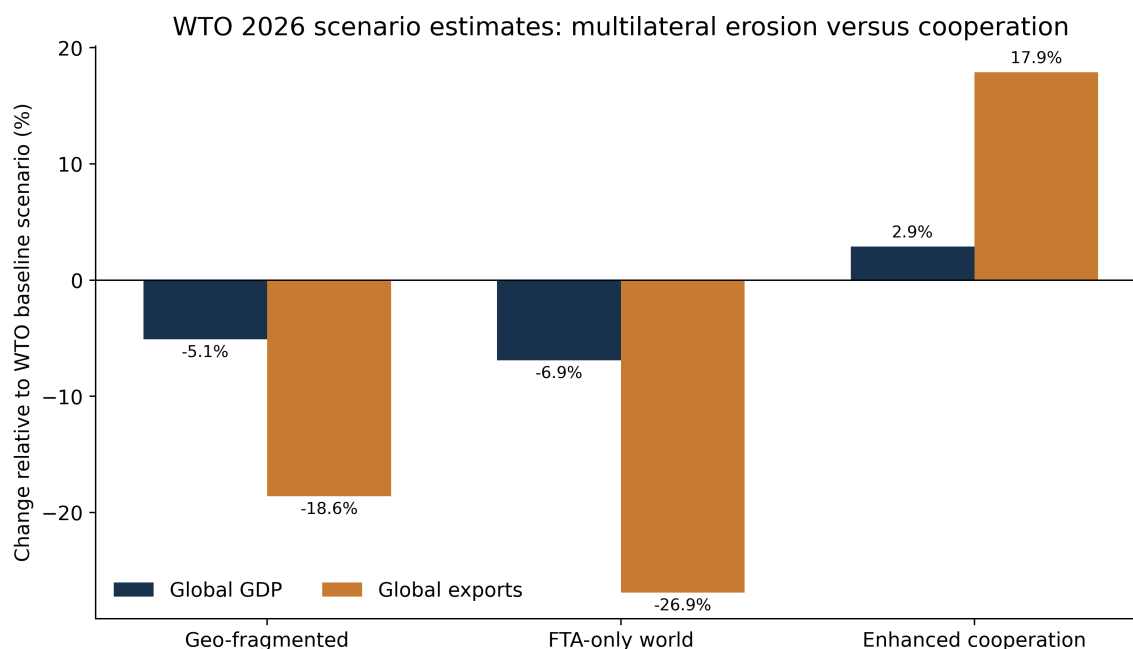


Figure 1: WTO scenario estimates for global GDP and exports

The most important analytical mistake is to interpret every movement toward resilience as deglobalisation. OECD evidence finds limited aggregate change in GVC participation in the 2023-24 period and describes the process as repositioning rather than wholesale retreat. (OECD, 2026b) A firm that moves one stage of production from one foreign country to another is still global. A company that adds a second supplier in another region is more diversified, not necessarily less international. A government that screens investment in a narrow set of critical sectors while keeping most capital flows open is pursuing selective security, not autarky.

The second analytical mistake is to assume that domestic production automatically creates resilience. Relocalisation can reduce one foreign dependency while increasing exposure to domestic

shocks, labour shortages, energy constraints, natural disasters or a smaller supplier base. The OECD's modelled results show why resilience must be measured by adaptability, redundancy and substitutability rather than by national location alone. (OECD, 2025)

The third mistake is to treat all industrial policy as equivalent. Subsidising a mature industry indefinitely, supporting a research platform with measurable spillovers, providing temporary finance for a strategic infrastructure bottleneck and imposing a tariff to protect domestic producers are economically different interventions. They require different tests of market failure, governance quality, fiscal cost, competition effects and international spillovers.

The fourth mistake is to assume the multilateral system and regional agreements are substitutes. As of September 2026, hundreds of regional trade agreements were in force, yet most goods trade still occurs under WTO MFN terms. Regional agreements can deepen integration among selected partners, while multilateral rules continue to provide baseline predictability across the wider system. (World Trade Organization, 2026c, 2026d)

The fifth mistake is to equate geopolitical alignment with economic substitutability. Two countries may be politically aligned but lack the industrial capacity, infrastructure or scale required to substitute for a dominant supplier. Friend-shoring therefore works only where alternative capacity exists or can be built at acceptable cost and time.

The sixth mistake is to treat trade and FDI as separate strategic systems. Modern production depends on both. Trade moves intermediate inputs and final goods. FDI moves capital, management, technology and production capacity. A country can gain export share because firms relocate investment into its territory. Connector economies therefore sit at the intersection of trade diversion, trade reallocation and investment relocation. IMF research on Asian connector economies and Mexico shows why the distinction between transshipment and genuine domestic value-added expansion matters. (Arizala et al., 2025; International Monetary Fund, 2025)

The seventh mistake is to overlook services. Manufacturing value chains increasingly embed software, finance, design, logistics, engineering, cloud services, data and intellectual property. OECD data on international services supply show the importance of commercial presence and the growing servicification of manufacturing. (OECD, 2026a)

The eighth mistake is to treat strategic sectors as a fixed list. Sector criticality changes with technology, security doctrine, climate policy, industrial structure and substitution options. Semiconductors, energy systems, critical minerals, pharmaceuticals, cloud services and communications infrastructure are commonly treated as strategic, but the relevant list differs across jurisdictions and over time.

The ninth mistake is to ignore distribution. Globalization survives politically only if societies have institutions that help workers, firms and regions adjust. The experience documented in the trade-shock literature demonstrates that adjustment can take years. A sustainable open system therefore requires domestic investment in skills, mobility, competition, infrastructure, social insurance and regional development.

The tenth mistake is to assume that fragmentation harms all economies equally. WTO modelling suggests smaller and poorer economies face larger proportional losses from a breakdown in

multilateral cooperation because they have less bargaining power in a system dominated by bilateral deals and discriminatory blocs. (World Trade Organization, 2026d)

The resulting thesis of this study is deliberately balanced. Economic security is a legitimate policy objective where dependencies are concentrated, critical and difficult to replace. Yet broad protectionism is a costly substitute for precise risk management. The strategic goal should be **resilience without isolation**.

Part I. Research Foundations

Chapter 1

Introduction: From Global Efficiency to Strategic Interdependence

1.1 The research problem

For three decades after the end of the Cold War, the dominant business logic of globalization was increasingly organised around cost, scale, specialisation and market access. Firms disaggregated production across borders, chose locations according to comparative advantage, coordinated complex supplier networks through digital communications and used international capital to finance expansion. The resulting system lowered costs for many products, expanded variety, accelerated technology diffusion and helped integrate emerging economies into global production. World Bank research estimates that global value chains came to account for almost half of world trade and were associated with substantial income gains in participating economies. (World Bank, 2020)

The system never eliminated politics. Trade negotiations, industrial policy, sanctions, local-content rules and strategic sectors existed throughout the period. Yet the policy environment often treated economic interdependence as a source of mutual gain whose risks could be managed through rules, diversification and private contracting.

That assumption is now under greater pressure.

The contemporary global economy is experiencing a convergence of strategic concerns: concentration in critical inputs, geopolitical rivalry, technological chokepoints, climate transition, cyber risk, energy security, pandemic preparedness, public concern over industrial decline and stronger political scrutiny of foreign investment. These pressures do not point in a single direction. Some encourage diversification across more countries. Others encourage regionalisation. Others support selective domestic capacity. Still others favour stronger multilateral cooperation.

The research problem is therefore not whether globalization is ending. The more precise question is:

How is globalization being reorganised when states and firms place economic security alongside efficiency, and what forms of interdependence remain welfare-enhancing under conditions of geopolitical and technological stress?

This question requires analysis at several levels. At the macro level, trade and investment flows indicate whether cross-border integration is expanding or contracting. At the network level, concentration and centrality reveal where dependencies are located. At the firm level, sourcing, inventories, contracting and investment determine resilience. At the state level, tariffs, subsidies,

screening, standards, procurement and export controls shape incentives. At the social level, distributional outcomes affect political durability.

1.2 Definitions

This study uses the following working definitions.

Globalization means the cross-border integration of production, trade, investment, technology, services, data and finance.

Goeconomic fragmentation means policy-driven separation or reduced integration along political, security or strategic lines. It can operate through tariffs, sanctions, export restrictions, investment controls, technology restrictions, discriminatory standards or the relocation of economic activity. (Aiyar et al., 2023)

Economic security means the capacity of an economy to sustain critical functions, prosperity and policy autonomy in the face of external shocks, coercion or concentrated dependency.

Industrial policy means targeted government intervention intended to alter the sectoral composition, technological capability or productive structure of an economy. Instruments include subsidies, public finance, procurement, tax incentives, trade measures, infrastructure, regulation, research support and workforce development. (Juhász et al., 2024)

Supply-chain resilience means the ability of a production network to anticipate, absorb, adapt to and recover from disruption while maintaining acceptable performance.

Strategic interdependence means cross-border economic dependence that is consciously managed according to criticality, concentration, substitutability and risk rather than treated as uniformly benign or uniformly dangerous.

Friend-shoring means shifting or favouring production and sourcing toward jurisdictions viewed as politically or strategically aligned. The term does not imply that allied suppliers are always economically substitutable.

Near-shoring means relocating production closer to the destination market, usually to reduce logistics time, transport risk or coordination cost.

Reshoring means relocating production into the home economy.

Connector economy means a country or jurisdiction that gains trade or investment importance as firms and states reroute or reconfigure economic relationships between larger blocs. Connector status can reflect genuine domestic production, transshipment, services intermediation or a mix of these channels. (International Monetary Fund, 2025)

1.3 Research objectives

This monograph has ten objectives.

1. Determine whether the best description of current change is deglobalisation, regionalisation, fragmentation, diversification or strategic reconfiguration.
2. Establish how industrial policy is altering production and investment patterns.
3. Measure the difference between concentration risk and ordinary foreign dependence.

4. Identify where friend-shoring and near-shoring improve resilience and where they merely shift risk.
5. Evaluate the role of multilateral rules in a more security-conscious trading system.
6. Examine how digital services and AI change the geography of trade.
7. Assess the implications for developing, small and connector economies.
8. Develop research tools for measuring strategic interdependence and reconfiguration.
9. Stress-test the system under multiple scenarios to 2040.
10. Produce policy and corporate implications without assuming one optimal model for every jurisdiction.

1.4 Research questions

The study is organised around twenty research questions.

RQ1. Is world trade shrinking relative to the global economy, or is its composition changing?

RQ2. How much of recent supply-chain change represents relocation rather than rerouting?

RQ3. Which forms of concentration create systemic strategic risk?

RQ4. When does diversification improve resilience more effectively than reshoring?

RQ5. Which industrial-policy instruments have the strongest empirical justification?

RQ6. How do subsidies and tariffs interact across borders?

RQ7. Does friend-shoring reduce geopolitical risk while increasing economic concentration?

RQ8. How should governments distinguish strategic sectors from politically favoured sectors?

RQ9. Which measures of supply-chain resilience are observable before a shock occurs?

RQ10. How do digital services alter the traditional geography of globalization?

RQ11. How does FDI screening affect openness, security and investment allocation?

RQ12. How do export controls change incentives for technological substitution?

RQ13. How are regional trade agreements interacting with WTO rules?

RQ14. What happens to small economies in a world of bilateral bargaining and strategic blocs?

RQ15. Which developing economies are positioned to benefit from reconfiguration?

RQ16. What domestic institutions allow societies to sustain openness while managing adjustment?

RQ17. How should firms price geopolitical risk into capital allocation?

RQ18. Can global public goods such as climate mitigation and pandemic preparedness be governed effectively under fragmentation?

RQ19. Which early-warning indicators provide useful lead time before a strategic dependency becomes an operational disruption?

RQ20. What evidence would falsify the strategic-reconfiguration thesis?

Chapter 2

Historical and Intellectual Foundations

2.1 Three eras of modern globalization

A useful starting point is to distinguish three broad eras rather than treat globalization as one continuous process.

The first era was built around falling transport costs. Steam power, railways and telegraphy reduced the cost of moving goods and information. Production itself remained relatively concentrated within factories and countries, but markets became more international.

The second era, especially after 1990, was built around falling coordination costs. Richard Baldwin's account of the "new globalization" emphasises how information and communications technology allowed firms to separate stages of production geographically while coordinating them in near real time. (Baldwin, 2016) The economic significance of borders changed because know-how, components and management could be distributed across locations.

The third era, now emerging, retains the technologies of global coordination but adds a security premium. The question is no longer only whether firms can separate production geographically. It is whether specific separations create dependencies that governments or boards are unwilling to accept.

This new era does not reverse the second. Digital coordination remains available. Container shipping still operates. Multinational firms still possess global networks. The change is an additional optimisation constraint.

2.2 Comparative advantage and the resilience critique

Classical trade theory explains why specialisation according to relative cost can raise total welfare. Modern trade theory adds economies of scale, firm heterogeneity, product variety and global production networks. These mechanisms create strong reasons for international specialisation.

The resilience critique does not reject comparative advantage. It argues that cost functions used in private optimisation may omit low-probability, high-impact disruptions, strategic coercion, common-mode failure and the social costs of prolonged adjustment. A supplier can be cheapest in expected cost while still creating unacceptable tail risk.

This produces a familiar policy problem: private and social valuations of resilience can diverge.

The challenge is measurement. Once any foreign dependency is labelled a security threat, protection becomes difficult to discipline. Economic-security policy therefore requires clear tests of criticality, concentration, substitution and proportionality.

2.3 The political economy of adjustment

Trade creates aggregate gains but not uniform gains. The China-shock literature demonstrated that local labour-market adjustment can be slow, spatially concentrated and persistent. (Autor et al., 2016) This finding matters for present debates because policy sustainability depends on more than aggregate GDP.

A country can gain nationally while a region loses for a decade. A firm can benefit from cheaper inputs while workers in an exposed industry bear concentrated adjustment costs. The political consequences depend on institutions, mobility, social insurance, education, local investment and political narratives. (Walter, 2021)

The implication is not that trade should be rejected. It is that durable globalization requires domestic adjustment capacity.

2.4 The globalization trilemma and policy space

Rodrik's globalization trilemma argues that deep economic integration, national sovereignty and democratic politics create tensions when pursued simultaneously at their maximum. (Rodrik, 2011) Contemporary economic-security policy can be interpreted as an attempt to reclaim policy space after a period in which some governments and communities perceived the balance to have moved too far toward cross-border integration.

The relevant research question is whether the result becomes indiscriminate protection or a more sustainable form of openness with explicit safeguards.

2.5 Network power and chokepoints

Farrell and Newman's theory of weaponised interdependence adds a network perspective. (Farrell & Newman, 2019) Global networks are not flat. Some nodes are more central than others. Jurisdictions controlling central hubs can gain information advantages or coercive leverage.

This framework is particularly relevant to payments, semiconductor equipment, cloud infrastructure, advanced manufacturing tools, logistics hubs and specialised raw-material processing. It also explains why the geographic concentration of one intermediate input can matter more strategically than the total import share of a country.

Chapter 3

Methodology and Evidence Architecture

3.1 Research design

This monograph combines five methods.

Institutional evidence review. Current data and policy analysis are drawn primarily from the WTO, OECD, UNCTAD, World Bank, IMF and official government sources. These institutions differ in methodology and policy perspective, which reduces reliance on a single analytical frame.

Academic literature review. Peer-reviewed research is used for industrial policy, trade adjustment, globalization backlash, network power and economic geography.

Comparative systems analysis. The study compares regions and sectors using common dimensions rather than attempting a league table of countries.

Scenario analysis. Scenarios are non-probabilistic stress tests. They describe internally consistent futures rather than forecasts.

Original framework development. The Strategic Interdependence Framework, Globalization Reconfiguration Index, resilience maturity model and early-warning dashboard are conceptual tools proposed for future empirical testing.

3.2 Evidence hierarchy

The report uses a five-level evidence hierarchy.

Grade	Evidence type	Primary use
A	Official statistics, audited data, peer-reviewed causal research	Core factual claims and model calibration
B	High-quality institutional estimates with transparent methodology	Current system description and scenarios
C	Reputable industry estimates or research with partial coverage	Triangulation and sector context
D	Company statements, policy announcements, single-source estimates	Case illustration

Grade	Evidence type	Primary use
E	Speculation or unverified claims	Excluded from quantitative conclusions

The analysis gives greatest weight to Grades A and B.

3.3 Distinguishing observation, projection and scenario

A recurring source of confusion in globalisation debates is the mixing of observed data with projections and policy simulations. This monograph labels them separately.

An **observation** describes measured historical or current data.

A **projection** extends current conditions using an explicit forecasting method.

A **counterfactual simulation** estimates what would happen under a specified policy or structural change in an economic model.

A **scenario** explores a possible future without assigning probability.

WTO estimates of GDP losses under geopolitical fragmentation are counterfactual simulations, not observed losses. (World Trade Organization, 2026d) This distinction is maintained throughout.

3.4 Units of analysis

The study uses four nested units.

1. Country or jurisdiction.
2. Sector or technology system.
3. Firm or supply chain.
4. Network node or chokepoint.

The same country can appear resilient at the macro level and exposed at the sector level. A diversified national import portfolio can conceal a single critical input sourced from one producer. Network analysis is therefore necessary alongside national trade statistics.

3.5 Limitations of current data

Trade data often measure gross flows rather than value added. A product can cross borders several times. FDI data can be distorted by financial centres and corporate restructuring. Subsidy data are difficult because support takes many forms and disclosure varies. Strategic-sector definitions differ across jurisdictions. Export-control exposure is often firm-specific. Services and digital trade remain harder to measure than merchandise trade.

These limitations support a cautious interpretation of apparent relocation.

Part II. The 2026 Global Evidence Base

Chapter 4

World Trade Is Resilient, but the Rules Around It Are Changing

4.1 Record trade does not equal unchanged globalization

Global trade reached a new nominal high in 2025. UNCTAD estimates total trade in goods and services at roughly US\$35 trillion, an increase of about US\$2.5 trillion from the previous year. Goods trade accounted for most of the increase, while services continued to expand. (UN Trade and Development, 2026a)

The headline is important because it contradicts simple narratives of global economic retreat. Cross-border exchange remains central to production and consumption. Firms still import intermediate goods, sell into foreign markets, license technology, move data, buy business services and allocate capital internationally.

Yet aggregate trade values do not reveal architecture. Two worlds can produce the same total trade value while differing greatly in geography, supplier concentration, political alignment and resilience. A country that shifts imports from one supplier to three suppliers could maintain the same import value with lower concentration. A firm that moves assembly from one country to another remains global even though bilateral flows change sharply.

This is why the present period is best analysed through both volume and structure.

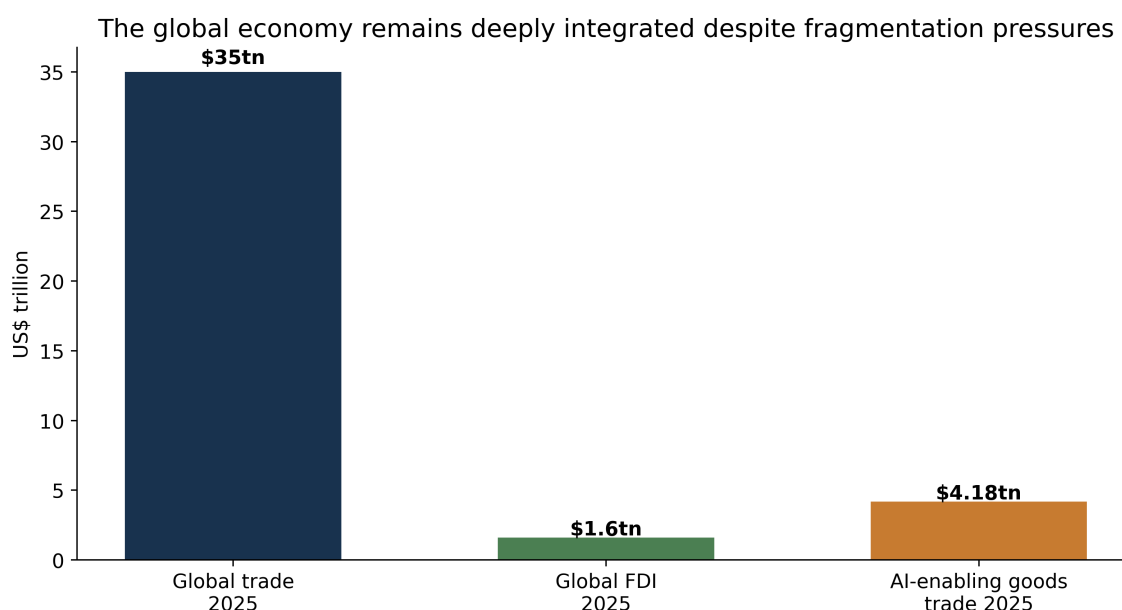
4.2 MFN trade remains the system's backbone

The WTO reports that roughly 72 percent of world merchandise trade continues to take place under most-favoured-nation tariff terms. (World Trade Organization, 2026e) This is a crucial baseline. Preferential agreements attract attention because they are politically visible and often contain deep rules, yet non-discriminatory WTO commitments still underpin most goods trade.

This has two implications.

First, the multilateral system remains economically relevant even when negotiations are difficult. Transparency, bound tariffs, customs rules, committee work and dispute-management functions reduce uncertainty for firms that trade beyond regional blocs.

Second, a breakdown in multilateral cooperation would affect relationships that do not sit inside the most politically prominent trade agreements. Smaller economies would be especially exposed because they have less leverage in bilateral bargaining.



Sources: UNCTAD Global Trade Update (April 2026); UNCTAD World Investment Report 2026; WTO electronic commerce and digital technologies statistics.

Figure 4.1: Headline indicators of continuing global integration

4.3 Regional agreements are proliferating alongside multilateral trade

The WTO's regional trade agreement database recorded hundreds of agreements in force in 2026. (World Trade Organization, 2026c) These agreements create overlapping layers of rules around tariffs, services, investment, digital trade, standards, procurement and regulatory cooperation.

The result is not a binary choice between multilateralism and regionalism. Contemporary trade governance is layered. Firms operate under WTO baseline rules, regional agreements, bilateral agreements, customs unions, sector-specific arrangements, domestic regulation and private standards simultaneously.

The policy risk arises when these layers become incompatible or discriminatory enough to split production systems into separate legal and technical ecosystems.

4.4 Services are changing the geography of trade

Services trade is increasingly important because production itself is becoming more services-intensive. Software, engineering, finance, data, design, logistics, cloud computing, intellectual property and professional services are embedded in manufactured products and production networks.

The WTO estimates that commercial services represented 27.6 percent of global trade in 2025, and digitally delivered services continued to expand strongly. (World Trade Organization, 2026e, 2026b) OECD data also show that commercial presence remains a major channel through which services are supplied internationally. (OECD, 2026a)

This changes economic geography in three ways.

First, services allow countries to export value without shipping a physical product. Second, manufacturing competitiveness increasingly depends on access to imported services. Third, regulation of data, cybersecurity, competition and AI can influence trade even when tariffs remain zero.

4.5 AI is becoming a trade variable

WTO statistics indicate that trade in AI-enabling goods reached more than US\$4 trillion in 2025 and contributed strongly to global trade growth. (World Trade Organization, 2026a) The WTO also models substantial long-term trade gains from AI through productivity and lower service-trade costs. (World Trade Organization, 2026e)

AI therefore cuts in two directions. It creates new cross-border opportunities while increasing the strategic importance of semiconductors, cloud infrastructure, data and digital regulation. A world with greater digital trade can simultaneously become more interdependent and more security-conscious.

Chapter 5

Global Value Chains: Rewiring Rather Than Retreat

5.1 The GVC system remains deeply embedded

Global value chains transformed world trade by separating production stages across borders. World Bank research estimated that GVCs account for nearly half of trade and have played a major role in productivity, income convergence and technology diffusion. (World Bank, 2020)

Recent evidence does not support a uniform collapse of these networks. OECD nowcasting for 2023-24 points to limited aggregate changes in GVC participation after the larger disruptions of 2020-22. (OECD, 2026b) The Global Value Chain Development Report 2025 similarly describes a process of rewiring shaped by technology, geopolitics and the green transition. (World Trade Organization and Asian Development Bank and University of International Business and Economics and Institute of Developing Economies-JETRO and World Economic Forum, 2025)

Rewiring is visible through four mechanisms.

Supplier diversification. Firms add secondary and tertiary suppliers in other jurisdictions.

Regional duplication. Companies build parallel production networks for major markets.

Stage relocation. Selected stages move while upstream or downstream links remain global.

Inventory and contractual change. Firms hold more buffer stock, sign longer contracts or reserve capacity.

None of these automatically reduces international integration.

5.2 Why reshoring is less common than political language suggests

Full reshoring is expensive when supplier ecosystems, labour pools, infrastructure and specialised knowledge have accumulated elsewhere. Production systems are path dependent. A final assembly plant can move faster than an ecosystem of component suppliers, tooling specialists, process engineers and logistics services.

OECD modelling is especially important here. Broad relocation could reduce world trade by more than 18 percent and global real GDP by more than 5 percent, while failing to improve resilience consistently. (OECD, 2025)

This result does not imply that no reshoring is rational. It implies that resilience must be evaluated sector by sector. Domestic production can be justified where an input is mission-critical,

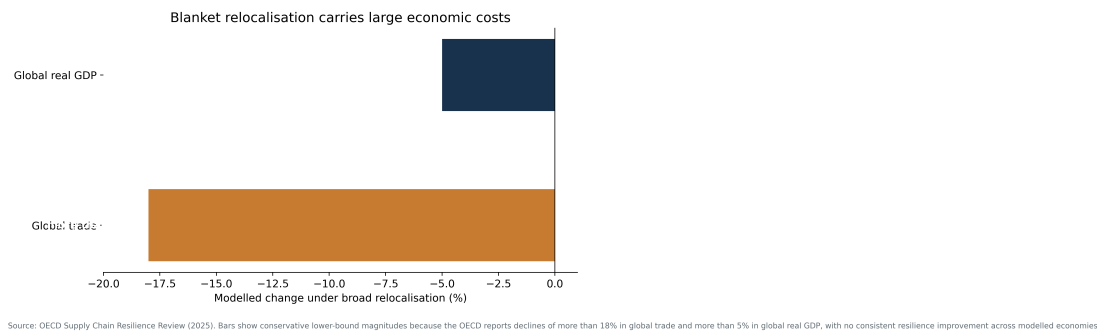


Figure 5.1: OECD modelled costs of broad supply-chain reallocation

globally concentrated, difficult to substitute and vulnerable to disruption. Blanket localisation lacks that precision.

5.3 Import concentration is a better warning signal than foreign sourcing alone

The OECD estimates that only around 30 percent of global exports are highly concentrated across a small number of partners, but it also finds that significant import concentration has risen materially relative to the late 1990s. (OECD, 2025)

This distinction matters. An economy can import a large share of its inputs and remain resilient if those inputs come from many suppliers with low switching costs. It can also import a small share of one critical component and remain highly exposed if the component is irreplaceable.

The relevant risk metric is therefore not the import share alone. It is the combination of foreign dependence, concentration, criticality and substitution time.

5.4 Connector economies and the problem of interpretation

Trade reconfiguration creates apparent winners. Countries located near large markets or able to attract investment can gain export share when firms diversify away from established hubs.

Yet export growth can arise through different channels.

Trade diversion occurs when buyers switch from one foreign source to another.

Trade reallocation occurs when a new supplier genuinely expands domestic production and value added.

Trade rerouting occurs when goods are transshipped or minimally transformed to change their route or customs origin.

IMF research on Asian connector economies finds that these mechanisms should not be conflated. Vietnam, for example, shows evidence consistent with genuine reallocation and higher domestic content in strategic-sector exports, whereas evidence for simple transshipment is less general across the countries studied. (International Monetary Fund, 2025)

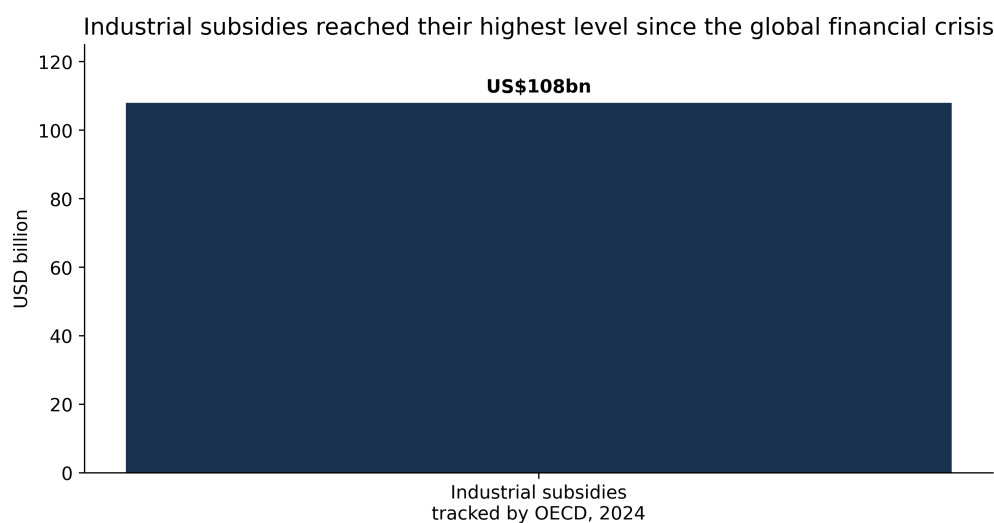
This matters for development. Trade rerouting can increase customs and logistics activity without producing the same technology, skill and supplier spillovers as genuine production relocation.

Chapter 6

Industrial Policy Returns to the Centre of Economic Strategy

6.1 The return is measurable

Industrial policy never disappeared, but its scale, visibility and strategic framing have increased. The OECD's 2026 MAGIC database estimates US\$108 billion in industrial subsidies in 2024, the highest level since the global financial crisis. (OECD, 2026d)



Source: OECD MAGIC Database of Industrial Subsidies (2026 release).

Figure 6.1: Industrial subsidies tracked by the OECD

The recent wave differs from older import-substitution models. Contemporary measures often target semiconductors, clean energy, batteries, critical minerals, advanced manufacturing, defence-linked technologies, digital infrastructure and supply-chain resilience.

Evenett and co-authors find that subsidies are especially prominent among advanced economies, while trade restrictions remain more common among emerging and developing economies. They also find evidence of policy imitation, with measures correlated across countries and sectors. (Evenett et al., 2024)

6.2 The economic case for industrial policy

Modern industrial-policy research identifies several possible rationales.

Learning externalities. Firms may underinvest in capabilities that benefit future entrants or the wider economy.

Coordination failures. A new industry may require simultaneous investment in suppliers, infrastructure, skills and customers.

Research spillovers. Private firms may capture only part of the social return from R&D.

Scale economies. Some sectors become more productive as production expands.

Resilience externalities. Firms may not capture the social value of maintaining redundant capacity for crises.

Environmental externalities. Private prices can understate climate or pollution costs.

The newer empirical literature offers a more nuanced and, in some settings, more favourable assessment of industrial policy than older cross-country studies. (Juhász et al., 2024)

6.3 The case against poorly designed industrial policy

The risks are equally real.

Governments may select politically influential sectors rather than sectors with genuine externalities. Subsidies can become permanent. Domestic incumbents can capture policy. Support can reduce competition. Fiscal costs can exceed productivity gains. Retaliation can trigger subsidy races and tariffs.

IMF modelling published in 2026 illustrates this problem. Recent industrial subsidies can shift exports toward targeted strategic sectors, but the fiscal cost and cross-border distortions can reduce global welfare. When recent tariffs are added, losses deepen in the model. (Rotunno et al., 2026)

The correct conclusion is not that industrial policy always fails. It is that intervention must pass a governance test as well as an economic test.

6.4 An industrial-policy governance test

A disciplined programme should answer seven questions before deployment.

1. What specific market failure or strategic vulnerability is being addressed?
2. Why is the chosen instrument better than less distortionary alternatives?
3. What measurable capability should exist after support ends?
4. What is the expected fiscal cost and opportunity cost?
5. How will competition be protected?
6. What are the cross-border spillovers and likely responses?
7. What is the exit rule if the programme does not work?

Policies that cannot answer these questions risk becoming industrial protection rather than industrial development.

Chapter 7

Foreign Direct Investment Is Becoming More Strategic

7.1 FDI recovery is concentrated

UNCTAD reports that global FDI increased by 6 percent to approximately US\$1.6 trillion in 2025 after two years of decline. The recovery was uneven, with the top twenty host economies capturing more than 80 percent of global flows. (UN Trade and Development, 2026c)

This concentration matters because FDI is a major channel through which production, technology, management practices and supply-chain relationships move geographically.

7.2 Strategic sectors absorb a larger share

Strategic sectors accounted for 44 percent of global greenfield project values in 2025, up from 16 percent in 2020. (UN Trade and Development, 2026b)

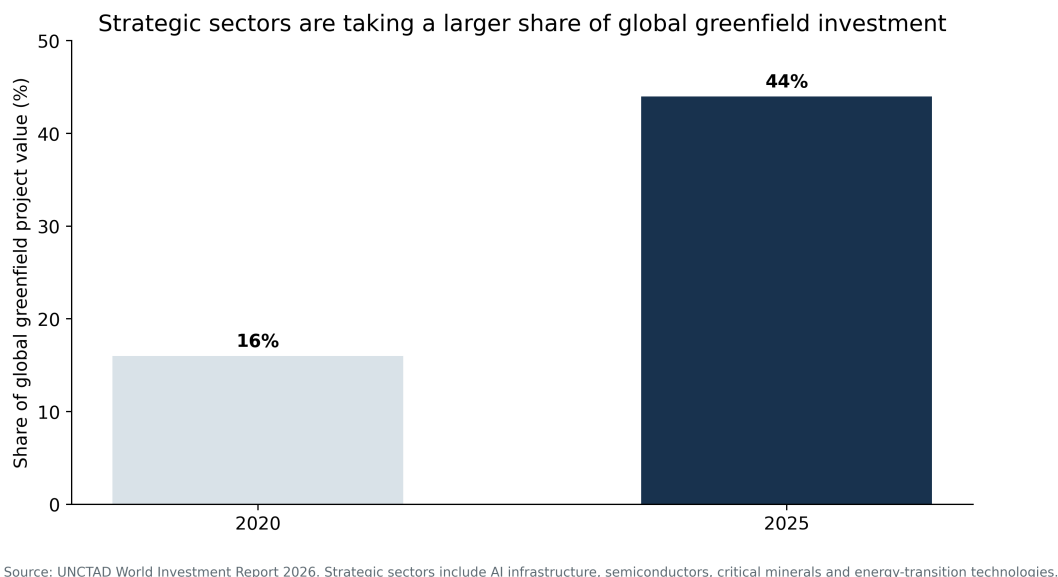


Figure 7.1: Strategic sectors as a share of global greenfield investment

The change reflects investment in AI infrastructure, semiconductors, critical minerals and energy-transition technologies. These are sectors where governments increasingly view location as a security issue as well as an economic one.

7.3 Screening and openness are coexisting

Investment policy is becoming more selective. The European Union strengthened its foreign-investment screening framework in 2026 while maintaining a stated commitment to openness. The framework focuses screening on security and public-order risks in sensitive and strategic areas. (European Commission, 2026a)

The EU has also asked member states to review outbound investment in semiconductors, artificial intelligence and quantum technologies, reflecting concern that capital flows can transfer strategic capability as well as finance. (European Commission, 2026b)

This points to a wider trend: investment policy is moving from a binary open-versus-closed framework toward differentiated treatment by sector, technology, ownership and risk.

7.4 FDI fragmentation has development consequences

Foreign investment provides more than capital. In many economies it brings supply-chain access, training, management systems and knowledge spillovers. A shift in FDI toward geopolitically aligned locations can therefore redistribute development opportunities.

UNCTAD's 2026 evidence raises a concern. Low-income and lower-middle-income economies captured only about 10 percent of global greenfield investment in strategic sectors between 2020 and 2025, below their share in other sectors. (UN Trade and Development, 2026b)

A new geography of investment could therefore widen capability gaps unless infrastructure, skills and institutions improve in countries outside the main strategic hubs.

Chapter 8

Export Controls, Critical Inputs and Economic Security

8.1 Export restrictions are becoming part of industrial strategy

Export controls and restrictions can serve different purposes: national security, environmental protection, domestic value addition, sanctions enforcement, price stabilisation or the conservation of scarce inputs. Their economic effects vary accordingly.

Critical minerals illustrate the broader trend. The OECD reports historically high export restrictions on critical raw materials, with substantial shares of global exports in cobalt, manganese, graphite and rare earths exposed to restrictions. (OECD, 2026c)

The strategic implication extends beyond minerals. Export controls on advanced technologies, specialised machinery and components can change firms' location decisions, encourage substitution and alter innovation incentives.

8.2 Controls create dynamic responses

A static analysis asks how much trade a restriction blocks immediately. A dynamic analysis asks what happens next.

Affected firms may stockpile. Buyers may diversify. Governments may subsidise alternatives. Producers may redesign products. New jurisdictions may enter the market. Domestic suppliers may gain scale. Rival states may impose countermeasures.

The long-run effect of a control therefore depends on technological substitutability and the time required to build alternatives.

8.3 The substitution paradox

A restriction is most strategically effective when the controlled input is difficult to replace. Yet that same condition increases the incentive for the target to invest heavily in substitution.

This creates a paradox: the stronger the short-run chokepoint, the greater the long-run incentive to erode it.

Research on economic security should therefore evaluate both immediate leverage and induced innovation.

Chapter 9

The Multilateral System Under Stress

9.1 The WTO's 2026 simulations

The World Trade Report 2026 provides a useful set of counterfactuals. WTO economists estimate that a geopolitically fragmented trading system could reduce global GDP by 5.1 percent and exports by 18.6 percent relative to the baseline. A world in which multilateral cooperation is replaced by an unstructured network of free-trade agreements produces larger estimated losses: 6.9 percent of global GDP and 26.9 percent of exports. By contrast, an enhanced-cooperation scenario raises GDP and exports relative to the baseline. (World Trade Organization, 2026d)

These are model results, not forecasts. Their value lies in the direction and distribution of effects.

9.2 Smaller economies have more to lose

WTO modelling indicates that least-developed countries and smaller economies face disproportionate losses under fragmentation. (World Trade Organization, 2026d) The reason is structural. Large economies possess market power and bargaining leverage. Smaller economies depend more heavily on stable general rules because they cannot negotiate bespoke arrangements with every major market.

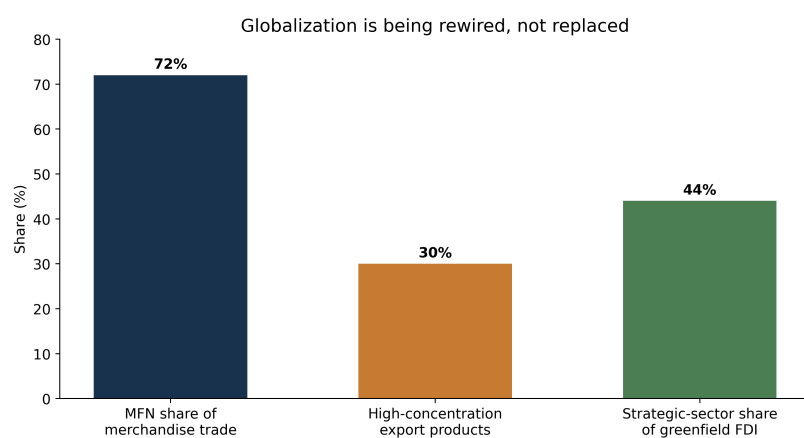
A system of power-based bilateralism therefore changes not only efficiency but bargaining asymmetry.

9.3 Multilateralism as infrastructure

Trade institutions are often evaluated by headline negotiations. This understates their daily function.

Bound tariffs, notification requirements, technical committees, customs disciplines, services rules, dispute procedures and transparency mechanisms reduce uncertainty even when major negotiating rounds stall. The institution functions partly like legal infrastructure.

The strategic question for the next phase of globalization is whether this baseline can coexist with more targeted economic-security measures.



Sources: WTO World Trade Report 2026; OECD Supply Chain Resilience Review 2025; UNCTAD World Investment Report 2026. Indicators measure different concepts and are shown together for orientation, not direct comparison.

Figure 9.1: Selected indicators of the changing trade architecture

Chapter 10

The Macroeconomic Context

10.1 Slower growth raises the cost of fragmentation

The World Bank projected global growth of about 2.6 percent for 2026 in its January Global Economic Prospects report, with trade growth expected to weaken as earlier stockpiling fades and higher tariffs work through the system. (World Bank, 2026)

Fragmentation is easier to absorb when productivity and investment are strong. It is more costly when growth is already subdued because firms and governments have less fiscal and financial space to build redundant capacity.

10.2 Trade balances are not controlled by tariffs alone

Recent IMF research stresses that aggregate current-account balances depend heavily on macroeconomic forces such as savings, investment, fiscal policy, demographics and credit conditions. Tariffs are a weak instrument for correcting structural imbalances. (Gourinchas et al., 2026)

This is an important distinction because industrial and trade policy debates often treat bilateral trade balances as direct measures of competitiveness or unfairness. Gross balances can reflect macroeconomic structure rather than only sector policy.

10.3 A strategic economy still requires macroeconomic discipline

Industrial policy cannot substitute for stable macroeconomic conditions. High financing costs, weak fiscal capacity, unreliable energy, poor logistics or an unstable exchange-rate regime can undermine strategic investments regardless of subsidy size.

Economic security is therefore inseparable from ordinary economic competence.

Part III. The Emerging Geography of Production and Investment

Chapter 11

North America: Scale, Proximity and Strategic Manufacturing

11.1 The structural advantages of proximity

North America illustrates why near-shoring can differ from reshoring. Production located in Mexico can remain deeply integrated with the United States and Canada through logistics, supplier relationships and market access while preserving cost differences that would make full domestic relocation more expensive.

IMF research on Mexico describes how global value-chain relocation can expand production when investment, infrastructure and trade access allow firms to serve the North American market from a nearby platform. (Arizala et al., 2025) OECD TiVA data also underline that Mexico's exports contain substantial imported inputs and services, demonstrating why gross export statistics do not capture the full network. (OECD, 2026a)

The strategic attraction of the region comes from four factors: a large final market, an established trade architecture, geographic proximity and a deep manufacturing base. These factors reduce transit time and support regional supplier ecosystems.

11.2 The limits of near-shoring

Near-shoring does not eliminate external dependence. A factory relocated to North America can still rely on Asian electronics, European machinery, imported critical minerals or foreign intellectual property. Regionalisation at one stage of production can therefore coexist with global dependence elsewhere.

This is a recurring theme throughout the paper: final assembly location is an incomplete measure of sovereignty or resilience.

11.3 A research agenda for North American reconfiguration

Researchers should distinguish four indicators when measuring near-shoring:

1. New domestic value added in the destination country.
2. Changes in imported intermediate content.
3. Greenfield investment versus acquisition-driven FDI.
4. Changes in supplier concentration at the component level.

Without these measures, rising exports can be misread as evidence of full supply-chain relocation.

Chapter 12

Europe: Open Strategic Autonomy and Regulatory Power

12.1 Economic security inside an open market

Europe provides a useful case of selective economic-security policy. The EU remains one of the world's largest trade and investment areas while expanding tools for foreign-investment screening, outbound-investment monitoring and strategic-sector policy. (European Commission, 2026a, 2026b)

The objective is not formal self-sufficiency. The policy architecture seeks to reduce exposure in selected technologies and infrastructure while preserving a large degree of openness.

This approach is analytically important because it demonstrates that security policy can be layered onto an open economic system rather than replacing it.

12.2 The regulatory channel

Europe's role in globalization is shaped not only by trade volume but by regulatory influence. Product standards, environmental requirements, competition rules, data rules and supply-chain due-diligence obligations can affect firms well beyond European borders when access to the European market requires compliance.

This form of influence differs from tariff power. It operates through market size and the cost of maintaining multiple product or compliance systems.

12.3 The competitiveness-security trade-off

Strategic autonomy can create tension between resilience and cost. Domestic or regional production may be more expensive than established global supply. Regulation can strengthen safety or environmental performance while increasing compliance costs.

The analytical question is not whether such costs exist. It is whether the resilience, public-goods or strategic benefits exceed them.

A rigorous evaluation should therefore include counterfactual procurement costs, expected disruption losses, innovation effects and the fiscal burden of support.

Chapter 13

China and East Asia: Scale, Networks and Rebalancing

13.1 East Asia remains central to manufacturing networks

Global value chains remain heavily embedded in East Asia. The region combines large-scale manufacturing, supplier density, ports, skilled industrial labour and deep intermediate-goods trade. (OECD, 2026b; World Trade Organization and Asian Development Bank and University of International Business and Economics and Institute of Developing Economies-JETRO and World Economic Forum, 2025)

This ecosystem creates network effects. Firms choose locations not only because of wages but because suppliers, tooling, engineers, logistics providers and customers already exist nearby.

Such agglomeration means reconfiguration is more likely to proceed through incremental diversification than abrupt separation.

13.2 China's role is changing, not disappearing

China's role in global production is evolving as firms diversify, Chinese companies invest abroad, domestic capabilities deepen and trade routes adjust. The important analytical question is not whether one country is “winning” or “losing” globalization. It is how value chains are being redistributed by stage.

Upstream inputs, machinery, intermediate goods and capital equipment can remain connected to Chinese production even when final assembly moves elsewhere. Conversely, Chinese firms can participate in new production hubs through outward investment.

The correct unit of analysis is therefore value added and ownership, not the shipping label on the final product.

13.3 Scale as strategic power

Large domestic markets allow firms to reach scale before exporting. This matters in sectors with strong learning effects or high fixed costs. Industrial policy can reinforce these advantages when subsidies, procurement and infrastructure support expansion.

The IMF's 2026 modelling finds that subsidies can increase exports in strategic sectors through scale and productivity channels, while also generating spillovers and fiscal costs. (Rotunno et al., 2026)

This illustrates why industrial policy can reshape trade even when aggregate trade balances change little.

Chapter 14

India and South Asia: Market Scale, Services and Manufacturing Ambition

14.1 A different development pathway

India's position in the new geography combines a large domestic market, significant services capability, expanding manufacturing ambition and growing participation in trade agreements. The United Kingdom-India trade agreement entered into force in 2026, illustrating continued bilateral integration even amid wider fragmentation pressures. (World Trade Organization, 2026c)

India's development path differs from East Asian export-led manufacturing models because services and digital capabilities play a larger role. This may become an advantage as global trade becomes more services-intensive.

14.2 The manufacturing-services interface

Modern manufacturing depends on engineering, software, finance, design and logistics. Countries with strong service sectors therefore have an opportunity to move into manufacturing-linked value chains without replicating every historical stage of industrialisation.

The research question is whether service capability can accelerate movement into higher-value manufacturing or whether infrastructure and logistics remain binding constraints.

14.3 South Asia's broader opportunity

The wider region could benefit from supply-chain diversification if trade facilitation, energy reliability, ports, customs, skills and regional integration improve. Yet fragmentation can also hurt if market access becomes more discriminatory and investment concentrates only in large hubs.

Chapter 15

ASEAN and the Connector-Economy Model

15.1 Why Southeast Asia matters

ASEAN economies sit near major Asian production systems, possess established manufacturing bases and maintain trade relationships across competing geopolitical centres. This creates opportunities for firms seeking geographic diversification without leaving the broader Asian ecosystem.

The connector-economy literature is especially relevant here. (International Monetary Fund, 2025)

15.2 Connector status is not automatically durable

A connector country benefits only if the new trade flow builds local capability. If the model is based mainly on transshipment, the economy remains exposed to rule-of-origin enforcement and policy changes.

Durable connector status therefore depends on domestic value-added growth, workforce capability, supplier development, infrastructure and investment retention.

15.3 The neutrality premium and its limits

Economies able to maintain commercial relationships across multiple blocs can gain from diversification. Yet neutrality is easier in ordinary commercial sectors than in technologies subject to security controls.

The more strategic the product, the harder it becomes to remain outside geopolitical alignment pressures.

Chapter 16

The Gulf and Middle East: Capital, Logistics and New Industrial Platforms

16.1 Strategic location and capital

Gulf economies are positioned between Europe, Asia and Africa and possess substantial logistics, energy and investment capacity. Their diversification strategies can therefore intersect with global supply-chain reconfiguration through ports, airlines, finance, data centres, advanced manufacturing and energy-intensive industries.

The region's comparative advantage is not only geography. It includes the ability to finance infrastructure quickly and connect multiple markets.

16.2 The energy-cost dimension

As industrial processes become more electricity-intensive, energy availability can influence manufacturing location. Data centres, aluminium, green hydrogen, desalination-linked industries and some advanced manufacturing activities are sensitive to power cost and reliability.

This creates a new link between trade geography and energy systems.

16.3 Conflict and route risk

The Middle East also demonstrates how geopolitical shocks affect trade routes, insurance, shipping time and energy prices. Strategic hubs can be valuable precisely because alternative routes and logistics capacity provide optionality.

A resilience strategy therefore requires route diversification as well as supplier diversification.

Chapter 17

Latin America and the Caribbean: Proximity, Minerals and the Value-Addition Question

17.1 Multiple pathways into the new geography

Latin America and the Caribbean possess several potential advantages: proximity to North America in some subregions, renewable-energy resources, critical minerals, agricultural capacity and established manufacturing clusters.

The central question is whether the region captures only raw-material demand or moves deeper into processing, manufacturing and services.

17.2 The risk of enclave reconfiguration

Strategic demand can increase commodity investment without transforming local productive capacity. A country can become more important to global supply chains while remaining dependent on imported technology and equipment.

Development outcomes therefore depend on linkages: local procurement, processing, skills, infrastructure, engineering services and innovation systems.

17.3 The Caribbean and small-state strategy

Small states cannot replicate the industrial breadth of large economies. Their strategy should focus on niches where scale disadvantages are manageable: logistics, digital services, specialised finance, renewable energy, selected processing, tourism-linked services, maritime services and regulatory quality.

For small economies, resilience often comes from diversified external partnerships rather than domestic self-sufficiency.

Chapter 18

Africa: AfCFTA, Strategic Inputs and Industrial Opportunity

18.1 A larger integrated market changes the equation

The African Continental Free Trade Area provides a framework for reducing internal fragmentation across African markets. The WTO lists AfCFTA among regional agreements in force. (World Trade Organization, 2026c)

Its economic significance lies in scale. Many African national markets are individually too small to support efficient industrial ecosystems. Regional integration can expand market size, support supplier networks and improve the economics of processing and manufacturing.

18.2 Strategic-mineral demand creates opportunity and risk

Africa holds important mineral resources required for energy, digital and defence supply chains. Rising strategic demand can attract investment, but extraction alone does not guarantee structural transformation.

The policy challenge is to capture economically viable downstream value without imposing local-processing requirements that exceed infrastructure, energy or market capability.

18.3 Infrastructure remains decisive

Ports, roads, rail, electricity, customs and digital connectivity determine whether mineral or agricultural endowments translate into competitive production systems.

Fragmentation could help some African economies as firms seek new locations. It could also exclude them if strategic investment remains concentrated in jurisdictions with existing infrastructure.

UNCTAD's finding that lower-income economies receive a relatively small share of strategic greenfield investment highlights this risk. (UN Trade and Development, 2026b)

Chapter 19

Small Economies in a Power-Based Trading System

19.1 Why rules matter more for small states

Large economies can threaten market closure or offer access to vast consumer bases. Small economies cannot. Their leverage comes from rules, niche capabilities, strategic location and coalition-building.

WTO modelling suggests least-developed countries lose disproportionately under multilateral erosion. (World Trade Organization, 2026d)

This result reflects bargaining asymmetry. A fragmented system converts market size into negotiating power more directly.

19.2 Strategic niches are preferable to broad self-sufficiency

Small states should identify functions where they can become difficult to replace rather than attempting to recreate entire value chains. Examples include specialised logistics, certification, digital services, maritime functions, finance, research niches, high-quality tourism, renewable power or selected processing.

The relevant strategy is **niche centrality**.

19.3 Institutional quality as an export

Predictable regulation, contract enforcement, customs efficiency and political stability reduce transaction costs. In a world where firms pay more attention to risk, institutional quality becomes a form of competitive advantage.

Part IV. Sectoral Geographies of Strategic Interdependence

Chapter 20

Semiconductors: The Archetype of Concentrated Interdependence

20.1 Why semiconductor geography matters

Semiconductors combine high fixed costs, specialised equipment, tacit knowledge, intellectual property, long supplier chains and rapid technological change. No large economy is fully self-sufficient across design, fabrication, lithography, materials, packaging, equipment and software. This makes semiconductors a near-perfect example of strategic interdependence.

20.2 The diversification problem

A government can subsidise domestic fabrication, yet the resulting plant may remain dependent on foreign equipment, materials and design tools. Resilience therefore requires layer-by-layer mapping.

A supply chain can be geographically diversified at one stage and concentrated at another.

20.3 Policy implications

Semiconductor industrial policy should measure more than installed fabrication capacity. Relevant indicators include process-node capability, packaging, equipment access, skilled labour, utilisation, customer base, power reliability and supplier depth.

The broader lesson applies to other strategic sectors: headline capacity is not the same as system capability.

Chapter 21

Critical Minerals: Upstream Diversity, Midstream Concentration

21.1 Minerals connect trade, security and industrial policy

Critical minerals are central to batteries, grids, electronics, defence, renewable energy and advanced manufacturing. Yet geological extraction and industrial processing are different stages.

A country can diversify mine supply without diversifying refining. Export restrictions on critical raw materials have increased, according to the OECD, raising concerns over concentration and price volatility. (OECD, 2026c)

21.2 Resource nationalism and value addition

Producer countries increasingly seek greater domestic value addition. This is economically understandable, especially when raw-material exports create limited local spillovers.

Yet mandated processing succeeds only when power, logistics, skills, technology and market scale support it. Otherwise policy can reduce investment without creating competitive downstream capacity.

21.3 Circular supply as strategic diversification

Recycling becomes more valuable when primary supply is concentrated. Secondary materials reduce exposure to mining shocks and can shorten supply chains.

Circularity should therefore be treated as a trade and security strategy, not only an environmental strategy.

Chapter 22

Batteries and Electric Vehicles: Competing Ecosystems

22.1 Value chains are being regionalised selectively

Battery and electric-vehicle production links minerals, chemicals, cells, electronics, software, assembly, charging infrastructure and electricity systems. Policy support in multiple regions is encouraging local or regional capacity.

The result is likely to be partial ecosystem duplication rather than complete national self-sufficiency.

22.2 Standards can fragment markets

Charging systems, battery regulations, recycling rules, software requirements and subsidy eligibility can shape market access. Divergent standards create compliance cost but can also support regional supply ecosystems.

22.3 Cost remains decisive

Strategic policy cannot ignore consumer price. If regionalisation raises vehicle cost substantially, adoption slows and policy support becomes harder to sustain.

The trade-off between security and affordability is therefore central.

Chapter 23

Clean Energy Equipment: Climate Policy Meets Industrial Policy

23.1 The clean-energy supply chain is global

Solar modules, wind equipment, inverters, batteries, transformers and grid equipment rely on globally distributed supply chains. Climate goals favour rapid deployment, while industrial policy favours domestic capability.

These goals can conflict when domestic production is more expensive.

23.2 Deployment versus domestic content

Policymakers should separate two objectives: decarbonising quickly and building local industry. One instrument rarely optimises both.

A domestic-content rule can promote local manufacturing while raising project cost. An open procurement system can lower cost while deepening foreign dependence.

Policy design should make the trade-off explicit.

Chapter 24

Pharmaceuticals and Health Security

24.1 Pandemic experience changed risk perception

Health products illustrate the difference between ordinary efficiency and emergency resilience. A supply chain that works under normal demand can fail when many countries seek the same product simultaneously.

Strategic health capacity therefore requires surge capability, diversified suppliers, stockpiles and contractual priority, not only domestic factories.

24.2 The inventory-versus-capacity choice

Some products are cheaper to stockpile than to manufacture domestically. Others expire quickly or require continuous quality systems.

Resilience policy should compare the lifecycle cost of inventories, standby capacity, multi-sourcing and domestic production rather than defaulting to one model.

Chapter 25

Food and Agriculture

25.1 Food security is not equivalent to food self-sufficiency

Many countries cannot efficiently produce all staple foods domestically. International trade spreads climatic and production risk across regions.

Yet excessive dependence on one route, input or supplier creates vulnerability.

The appropriate model is diversified import capacity combined with strategic reserves, domestic agricultural capability where viable, and resilient logistics.

25.2 Fertiliser, energy and shipping link the system

Agricultural resilience depends on fertilisers, fuel, machinery, finance, ports and shipping. A food-security strategy that examines only farm output misses these upstream dependencies.

Chapter 26

Digital Services, Cloud and Cross-Border Data

26.1 Digital trade weakens the link between value and distance

Digitally delivered services allow firms to export software, professional services, design, finance and media without physical shipment. WTO datasets now cover digitally delivered services across more than 200 economies. (World Trade Organization, 2026b)

This opens development opportunities for countries that lack large manufacturing bases.

26.2 Regulation becomes the border

Privacy, cybersecurity, data localisation, AI regulation and platform rules increasingly determine market access in digital trade.

The relevant friction is therefore often regulatory interoperability rather than tariffs.

26.3 Cloud concentration creates a new form of dependency

Digital services can be geographically distributed while depending on concentrated infrastructure providers. This demonstrates why globalization must be analysed by network layer.

Chapter 27

Finance and Payments

27.1 Financial networks amplify interdependence

Cross-border payments, correspondent banking, reserve currencies and capital markets allow global trade to function. They also create central nodes whose disruption has wide effects.

The network-power literature shows why financial infrastructure can become a source of strategic leverage. (Farrell & Newman, 2019)

27.2 Fragmentation raises transaction costs

Competing payment systems, compliance regimes and sanctions structures can increase the cost of cross-border commerce even where goods trade remains legally permitted.

This is one reason geoeconomic fragmentation extends beyond tariffs.

Part V. Original Analytical Frameworks

Chapter 28

The Strategic Interdependence Framework

28.1 Why a new framework is needed

Policy debates often classify dependencies as either safe or dangerous. That binary approach obscures important differences.

Dependence on a foreign supplier is not automatically a vulnerability. A firm can depend heavily on imports while retaining many alternative suppliers. Conversely, a low-value imported component can create severe exposure if it is essential, single-sourced and slow to replace.

The Strategic Interdependence Framework evaluates dependency across eight dimensions.

Dimension	Core question	High-risk condition
Criticality	What happens if supply stops?	Essential function fails
Concentration	How many viable suppliers exist?	One or few suppliers dominate
Substitutability	Can another input perform the same function?	No technically viable substitute
Switching time	How long to qualify another source?	Switching exceeds tolerable outage
Geographic exposure	Are suppliers exposed to common shocks?	Suppliers cluster in one region
Policy exposure	Can governments restrict access?	High licensing, sanction or control risk
Network centrality	Does one node connect many flows?	Failure propagates widely
Adjustment capacity	Can the buyer adapt operationally?	Low inventory, skills or redesign capacity

A strategic dependency exists when several high-risk conditions coincide.

28.2 The Strategic Dependency Score

For research purposes, this monograph proposes a simple multiplicative score:

$$SDS = C_r \times C_o \times (1 - S_u) \times T_s \times G_e \times P_e \times N_c \times (1 - A_c)$$

where:

- C_r = criticality,
- C_o = concentration,
- S_u = substitutability,
- T_s = switching-time exposure,
- G_e = geographic common-mode exposure,
- P_e = policy exposure,
- N_c = network centrality,
- A_c = adjustment capacity.

Each variable is scaled from 0 to 1. The multiplicative structure is deliberate. A dependency becomes strategically important when several weaknesses reinforce one another. The model should not be interpreted as validated. It is a research proposal requiring empirical calibration.

28.3 Why multiplicative scoring is preferable to a simple average

An arithmetic average can hide a catastrophic weakness. A supply chain might score well on six dimensions but have zero substitutability and an eighteen-month switching time. Averaging can make the system look moderate when one bottleneck dominates real-world risk.

A multiplicative score imposes a stronger penalty for concentrated weakness. Researchers should test whether this predicts observed disruption better than additive models.

Chapter 29

The Globalization Reconfiguration Index

29.1 Purpose

The Globalization Reconfiguration Index, or GRI, is designed to measure structural change without assuming that every shift represents deglobalisation.

The index has seven domains.

1. Geographic concentration of trade.
2. Geographic concentration of FDI.
3. Trade-policy discrimination.
4. Industrial-policy intensity.
5. Strategic-sector investment share.
6. Supply-chain substitutability.
7. Digital and services integration.

The index is intended to distinguish three phenomena:

Contraction, where cross-border flows decline materially.

Reallocation, where flows move across jurisdictions but remain international.

Rewiring, where network structure, supplier redundancy or regulatory architecture changes while aggregate integration remains high.

29.2 Proposed calculation

Let the normalised domain scores be $g_1, g_2, \dots, g_7$. A baseline reconfiguration score can be defined as:

$$GRI = \sum_{i=1}^7 w_i g_i$$

where the weights sum to one.

The index should be paired with an **Openness Level** measuring trade, services and investment relative to GDP. A high GRI with high openness describes strategic reconfiguration. A high GRI with sharply falling openness describes fragmentation or deglobalisation.

This two-axis approach avoids conceptual confusion.

29.3 Four globalization states

State	Openness	Reconfiguration	Interpretation
Integrated stability	High	Low	Broadly stable global architecture
Strategic globalization	High	High	Trade remains large but networks and rules change
Fragmented contraction	Low	High	Blocs, restrictions and lower cross-border integration
Domestic retrenchment	Low	Low	Broadly inward-oriented economy

The current global system most closely resembles **strategic globalization**, although sectors and regions differ substantially.

Chapter 30

The Supply-Chain Resilience Cube

30.1 Three independent questions

Supply-chain debates often collapse resilience into geography. The Resilience Cube separates three questions:

Diversity. How many independent supply options exist?

Distance. How geographically dispersed are they?

Dependence. How difficult is substitution?

A supply chain can be geographically close but highly concentrated. It can be globally dispersed but dependent on one technology provider. It can have many suppliers that all rely on the same upstream raw material.

30.2 Common-mode failure

True diversification requires independence. Five suppliers located in different countries do not create five independent options if all rely on the same refinery, cloud platform, port or machine tool.

Researchers should therefore map shared upstream nodes.

30.3 Resilience reserve margin

This monograph proposes a **resilience reserve margin** analogous to capacity reserve in power systems.

$$RRM = \frac{A - B}{B}$$

where A is available qualified supply after the loss of the largest vulnerable node and B is minimum required supply.

A positive RRM indicates the system can continue operating after the specified shock. A negative value indicates shortage.

This metric is more operational than country counts.

Chapter 31

The Economic Security Proportionality Test

31.1 Why proportionality matters

Security language can become a broad justification for protection. A disciplined policy therefore requires a proportionality test.

The proposed test has six stages.

Stage 1: Critical function. Identify the function at risk rather than the politically salient industry.

Stage 2: Failure mode. Specify the disruption being addressed: war, export restriction, cyber-attack, natural disaster, pandemic, bankruptcy or logistics interruption.

Stage 3: Probability and impact. Estimate the range of plausible loss rather than assuming worst case as certainty.

Stage 4: Least-cost remedy. Compare stockpiles, diversification, mutual-assistance agreements, redesign, domestic capacity and international cooperation.

Stage 5: Spillover assessment. Estimate consumer cost, fiscal cost, trade retaliation and partner effects.

Stage 6: Sunset and review. Require evidence that the measure remains necessary.

A policy that fails this sequence should not be called resilience simply because it increases domestic production.

Chapter 32

The Strategic Sector Classification Matrix

32.1 Four tests of strategic status

A sector should not be classified as strategic solely because it is large or politically important. This study proposes four tests.

1. **Essentiality:** disruption significantly impairs health, security, energy, communications, finance or industrial continuity.
2. **Concentration:** supply depends on a small set of firms, jurisdictions or technologies.
3. **Substitution difficulty:** alternatives require long qualification or major redesign.
4. **Spillover intensity:** the sector generates capabilities used across many other industries.

Sectors scoring high on all four warrant the strongest attention.

32.2 Dynamic classification

Strategic status should be reviewed periodically. Technology can reduce criticality. New suppliers can reduce concentration. Recycling can improve substitution. A once-strategic technology can become commoditised.

Permanent classification encourages permanent protection.

Chapter 33

The Connector-Economy Quality Framework

33.1 Not all connector growth is equal

A country experiencing export growth during fragmentation should be evaluated across six dimensions.

Dimension	Low-quality connector outcome	High-quality connector outcome
Domestic value added	Minimal processing	Significant local production
FDI	Short-term routing entities	Long-lived productive assets
Skills	Limited transfer	Workforce and managerial upgrading
Supplier base	Imported inputs dominate	Local supplier deepening
Market diversification	One destination	Multiple end markets
Innovation	Little local R&D	Engineering and product capability

The framework separates temporary trade diversion from durable industrial upgrading.

33.2 Connector vulnerability

Connector economies face a hidden risk. If their advantage depends on access to both sides of a geopolitical divide, deeper fragmentation can eventually force alignment and reduce the value of their bridging role.

The best connector strategy therefore converts temporary routing advantages into domestic capability before the policy environment changes.

Chapter 34

The Corporate Geopolitical Exposure Map

34.1 From country risk to network risk

Traditional country-risk analysis asks whether a country is politically stable, solvent or investable. Modern supply chains require a different lens.

A company can have no factories in a high-risk jurisdiction yet remain exposed through a Tier 3 supplier, software dependency, shipping route or critical mineral.

The Corporate Geopolitical Exposure Map therefore tracks six layers:

1. Revenue exposure.
2. Direct supplier exposure.
3. Indirect supplier exposure.
4. Technology and software exposure.
5. Logistics and route exposure.
6. Regulatory and sanctions exposure.

34.2 Revenue-supply asymmetry

A company can source from one bloc and sell heavily into another. Such asymmetry matters because retaliation or regulation can affect either side.

Board reporting should therefore map both demand and supply dependencies.

Chapter 35

The Globalization Resilience Maturity Model

35.1 Five levels

Level 1: Unmapped. The organisation knows Tier 1 suppliers but lacks upstream visibility.

Level 2: Visible. Critical dependencies are mapped, but responses are mostly reactive.

Level 3: Diversified. High-risk nodes have alternative suppliers and tested contracts.

Level 4: Adaptive. The organisation conducts scenario exercises, migration tests and inventory optimisation.

Level 5: Strategic. Capital allocation, product design, procurement and policy engagement are integrated around resilience metrics.

The maturity model applies to governments as well as firms.

Part VI. Scenario Architecture to 2040

Chapter 36

Scenario Method

36.1 Scenarios are stress tests, not predictions

The following scenarios are not assigned probabilities. Their purpose is to test assumptions and identify strategies that perform reasonably well across multiple futures.

Each scenario is evaluated across six outcome dimensions:

1. Global trade volume.
2. Investment geography.
3. Consumer and input costs.
4. Supply-chain resilience.
5. Technology diffusion.
6. Development opportunity.

36.2 Baseline condition

The baseline is a world of continued high trade and investment with selective strategic controls, moderate regional diversification and ongoing multilateral institutions. This is not a forecast. It is a reference point against which shocks are considered.

Chapter 37

Scenario 1. Managed Strategic Interdependence

Governments narrow economic-security measures to clearly defined critical sectors while preserving broad openness elsewhere. Firms diversify key suppliers, maintain international production and use regional agreements to deepen selected relationships. The WTO remains functional as a baseline rule system.

Under this scenario, trade remains high. Costs rise modestly in strategic sectors because redundancy is not free, but diversification reduces tail risk. Industrial policy focuses on capability gaps with sunset rules. Digital services continue expanding.

This scenario produces the most direct version of strategic globalization.

Chapter 38

Scenario 2. Techno-Bloc Fragmentation

Major economies organise technology, investment and trade into competing blocs. Export controls widen. Digital standards diverge. Cross-bloc FDI falls. Firms duplicate technology stacks and production capacity.

The immediate effect is not the end of trade but a change in composition. Intra-bloc trade grows while inter-bloc exchange falls. Costs rise because firms lose scale and must maintain duplicate systems.

Smaller economies face alignment pressure.

Chapter 39

Scenario 3. Broad Tariff Escalation

Tariffs expand across a large range of goods rather than remaining concentrated in strategic sectors. Firms initially absorb some costs through margins, sourcing changes and currency movements. Over time, supply chains shift and consumer prices adjust.

The primary risk is a feedback loop: tariffs alter trade, partners retaliate, firms delay investment and policy uncertainty raises the cost of capital.

IMF modelling of recent subsidy-tariff interactions provides evidence that such spirals can reduce global welfare even when some sectors or countries gain. (Rotunno et al., 2026)

Chapter 40

Scenario 4. Global Subsidy Race

Governments compete to attract strategic industries through grants, tax credits, concessional finance and procurement guarantees.

Investment shifts toward jurisdictions with fiscal capacity. Strategic-sector construction rises, but duplication creates overcapacity in some segments. Smaller countries struggle to match large subsidy packages.

The scenario may accelerate technology deployment while increasing fiscal cost and trade tension.

Chapter 41

Scenario 5. Coordinated Industrial Policy

Major economies agree on transparency, subsidy notification, common standards and limits on the most distortive forms of support. Industrial policy remains active but is partially coordinated.

This reduces uncertainty while allowing governments to address resilience and climate goals.

The main difficulty is political: countries may disagree about what constitutes legitimate support.

Chapter 42

Scenario 6. Global Recession and Fiscal Retrenchment

A major recession reduces demand and public revenue. Governments cut or delay industrial support. Firms cancel capacity investments and focus on cash preservation.

Supply concentration can rise because weaker suppliers exit. A downturn can therefore increase future vulnerability even as immediate demand falls.

The lesson is that resilience built only through subsidies may prove fragile when fiscal conditions deteriorate.

Chapter 43

Scenario 7. Semiconductor Supply Shock

A major disruption removes a large share of advanced semiconductor supply. Electronics, automotive, cloud and industrial equipment sectors face shortages.

Countries with diversified inventories, older-node substitution options and redesign capability recover faster. Domestic final assembly provides limited protection if chips remain unavailable.

This scenario validates layer-by-layer dependency mapping.

Chapter 44

Scenario 8. Critical-Mineral Export Shock

Restrictions or conflict disrupt supply of a critical processed mineral.

Producers with recycling capacity, long-term contracts, alternative chemistry and inventory buffers outperform firms relying solely on spot markets.

The shock accelerates substitution research and new mining investment, but lead times create an extended adjustment period.

Chapter 45

Scenario 9. Maritime Chokepoint Disruption

A major shipping route becomes unavailable for an extended period.

Freight rates rise, transit times lengthen and inventory requirements increase. Firms with alternate ports and regional supplier options gain relative resilience.

The event demonstrates that supply security depends on routes, not only origin countries.

Chapter 46

Scenario 10. Cyberattack on Logistics Infrastructure

A cyber incident affects ports, customs systems, shipping platforms or freight coordination across multiple jurisdictions.

Physical infrastructure remains intact, but digital coordination fails. The scenario exposes the digital layer of trade resilience.

Manual fallback procedures, data backups and interoperable systems become strategic assets.

Chapter 47

Scenario 11. AI-Driven Productivity Acceleration

AI sharply reduces coordination, design, translation and service-delivery costs. Digitally delivered services expand quickly. Small firms gain access to international markets with lower overhead.

Manufacturing becomes more automated and knowledge-intensive. Some production moves closer to consumers, while design and services become more globally distributed.

Globalization becomes more digital rather than less global.

Chapter 48

Scenario 12. AI-Driven Manufacturing Concentration

AI and automation increase the importance of capital, compute and engineering relative to labour cost. Production concentrates in jurisdictions with reliable energy, finance, technology and skilled workers.

Developing economies that relied on labour-cost advantages face pressure unless they move into services, specialised production or resource-linked value chains.

Chapter 49

Scenario 13. Energy-Price Divergence

Electricity and gas costs diverge sharply across regions. Energy-intensive production relocates toward jurisdictions with abundant, reliable power.

Trade geography increasingly follows electricity geography.

The effect is strongest in metals, chemicals, data centres, hydrogen-related industries and advanced manufacturing with high power requirements.

Chapter 50

Scenario 14. Carbon-Policy Fragmentation

Major markets adopt different carbon prices, border measures and product standards.

Firms must document embedded emissions and operate multiple compliance systems. Cleaner producers gain market advantage, but administrative burdens rise.

Developing economies with carbon-intensive grids face new competitiveness pressures.

Chapter 51

Scenario 15. Digital Regulatory Fragmentation

Data localisation, privacy rules, AI governance and cybersecurity requirements diverge substantially.

Digital firms create separate regional architectures. Small firms struggle with compliance. Cross-border services trade slows relative to a harmonised baseline.

Standards interoperability becomes a central trade-policy issue.

Chapter 52

Scenario 16. Regional Integration Renaissance

Regional blocs deepen trade, infrastructure, payments and standards coordination without cutting most external ties.

Supply chains become more regional at some stages while remaining globally connected in others.

This scenario increases the importance of rules of origin and cross-regional compatibility.

Chapter 53

Scenario 17. Multilateral Renewal

WTO members strengthen transparency, digital trade rules, subsidy disciplines and mechanisms for managing security-related trade measures.

Regional agreements remain important, but the multilateral floor becomes more predictable.

WTO modelling suggests an enhanced-cooperation pathway produces meaningful gains relative to fragmented alternatives. (World Trade Organization, 2026d)

Chapter 54

Scenario 18. Developing-Economy Industrial Breakthrough

A group of developing economies attracts significant strategic-sector investment by improving electricity, logistics, customs, skills and investment governance.

Production diversifies beyond established hubs. New supplier ecosystems emerge.

The scenario reduces global concentration while expanding development opportunity.

Chapter 55

Scenario 19. Strategic-Sector Investment Exclusion

Strategic investment becomes increasingly concentrated among advanced economies and a small set of middle-income hubs.

Low-income economies continue exporting commodities but capture little technology-intensive investment.

UNCTAD's current concentration data make this a plausible risk pathway. (UN Trade and Development, 2026b)

Chapter 56

Scenario 20. Corporate-Led Reglobalization

Firms conclude that excessive duplication is too costly and rebuild global networks around advanced risk management rather than political blocs.

Multi-sourcing, modular design, inventory analytics and financial hedging allow companies to regain efficiency without recreating single-node dependencies.

The result is a more distributed form of globalization.

Chapter 57

Compound Shock Scenarios

57.1 Compound Shock A: Tariffs plus recession

Trade restrictions rise as global demand contracts. Firms face both weaker sales and higher input costs. Investment falls sharply. Governments have less fiscal capacity to subsidise adjustment.

This is more damaging than either shock alone because policy uncertainty amplifies cyclical weakness.

57.2 Compound Shock B: Semiconductor disruption plus cyberattack

A physical supply shortage coincides with disruption to logistics or cloud systems. Firms cannot rely on ordinary coordination tools to allocate scarce components.

Resilience depends on offline continuity procedures and prioritisation rules as well as inventory.

57.3 Compound Shock C: Mineral restriction plus energy-price shock

A critical material becomes scarce while energy-intensive refining becomes more expensive. Substitution options shrink simultaneously.

The event tests whether diversification strategies considered energy dependencies upstream.

57.4 Compound Shock D: Digital fragmentation plus financial fragmentation

Data rules and payment networks separate along geopolitical lines. Cross-border services face both technical and financial friction.

Small exporters are hit especially hard because they lack compliance scale.

57.5 Compound Shock E: Climate disaster across a concentrated supply region

Multiple suppliers in the same region fail because of heat, flood or storm. Geographic supplier counts prove misleading because the suppliers share a common hazard.

This scenario validates common-mode risk analysis.

57.6 Compound Shock F: Strategic investment boom plus labour bottleneck

Governments succeed in attracting factories but fail to expand skilled labour, housing and infrastructure. Project costs rise and utilisation disappoints.

The scenario shows that capital subsidies cannot substitute for ecosystem capacity.

Chapter 58

Cross-Scenario Findings

Five strategies perform well across most scenarios.

First, visibility. Governments and firms need to know their true upstream dependencies.

Second, qualified alternatives. A second supplier is useful only if technically and commercially ready.

Third, modularity. Products and systems designed for substitution adapt faster.

Fourth, multilateral and regional redundancy. More than one diplomatic and commercial pathway reduces policy risk.

Fifth, domestic adjustment capacity. Skills, infrastructure and finance determine whether economies can respond when networks shift.

The least robust strategy is broad autarky. It sacrifices scale and diversification while leaving domestic common-mode risks unresolved.

Part VII. Early-Warning System for Global Reconfiguration

Chapter 59

Forty-Eight Indicators

A research-grade early-warning dashboard should include leading, coincident and lagging indicators. No single metric captures fragmentation.

59.1 Trade structure indicators

1. Share of imports from the largest supplier.
2. Share from the top three suppliers.
3. Number of qualified supplier countries.
4. Change in intermediate-goods trade by partner.
5. Change in trade-weighted tariff exposure.
6. Change in non-tariff-measure coverage.
7. Share of trade covered by preferential agreements.
8. Share conducted under MFN terms.

59.2 Investment indicators

9. Greenfield FDI value by sector.
10. Strategic-sector share of greenfield FDI.
11. FDI concentration among top host economies.
12. Share of FDI subject to screening.
13. Outbound-investment restrictions by technology.
14. Project cancellation rate.
15. Capital expenditure announcements in strategic sectors.
16. Cross-border merger and acquisition activity.

59.3 Industrial-policy indicators

17. Subsidy value by sector.
18. Subsidy announcements by major economies.
19. Procurement preferences.
20. Local-content requirements.
21. Production tax credits.
22. Concessional public finance.
23. Strategic stockpile spending.
24. Public R&D support.

59.4 Supply-chain indicators

25. Supplier lead time.
26. Inventory-to-sales ratio.
27. Freight rates.
28. Port dwell time.
29. Route concentration.
30. Supplier switching time.
31. Share of single-source components.
32. Resilience reserve margin.

59.5 Technology indicators

33. Export-control coverage.
34. Licensing delays.
35. Patent concentration.
36. Production concentration in key technologies.
37. Alternative technology maturity.
38. Standards divergence.
39. Cloud or digital-service concentration.
40. Cross-border data restrictions.

59.6 Macro and political-economy indicators

41. Global trade-policy uncertainty.
42. Trade growth relative to GDP growth.
43. Services-trade growth.
44. Manufacturing investment growth.
45. Real effective exchange-rate shifts.
46. Regional unemployment in trade-exposed sectors.
47. Public support for trade openness where reliable surveys exist.
48. Frequency of security-based trade interventions.

59.7 Dashboard interpretation

Indicators should be interpreted as clusters. Rising tariffs alone do not prove fragmentation if trade and investment remain diversified. Falling FDI alone can reflect a global business cycle. Stronger evidence emerges when trade concentration, screening, subsidy intensity and partner alignment shift together.

The dashboard should therefore generate **signals**, not deterministic conclusions.

Part VIII. Policy, Corporate and Development Implications

Chapter 60

Government Strategy: Resilience Without Isolation

60.1 Start with functions, not industries

Economic-security policy works best when governments define the function that must be protected before selecting an industry or instrument. The relevant function might be emergency communications, grid restoration, access to essential medicines, defence maintenance, payment continuity or data-centre operation.

Starting with an industry encourages lobbying. Starting with a function allows multiple solutions to compete.

For example, the objective “domestic pharmaceutical manufacturing” is narrower and more politically loaded than the objective “continuity of access to essential medicines during a global disruption.” The latter can be addressed through diversified supply, stockpiles, mutual-recognition agreements, standby manufacturing and procurement contracts.

60.2 Map dependencies before subsidising capacity

A domestic facility can create the appearance of autonomy while remaining dependent on imported machinery, intellectual property, components or software.

Governments should therefore require dependency maps before approving major resilience subsidies. The map should include upstream suppliers, logistics, maintenance inputs, power requirements, critical labour, software and ownership.

60.3 Use the least distortionary instrument

The instrument should match the failure.

If the problem is inventory shortage, stockpiles may be cheaper than factories.

If the problem is one-country concentration, diversification incentives may be cheaper than reshoring.

If the problem is research spillovers, R&D support may be more appropriate than tariffs.

If the problem is weak skills, training and immigration policy may matter more than capital grants.

If the problem is infrastructure, public investment may outperform firm-specific subsidies.

This sequencing reduces the risk of using tariffs as a universal tool.

60.4 Build sunset clauses into support

Industrial policy should have review points tied to capability milestones.

Possible milestones include productivity, export performance, private co-investment, local supplier depth, R&D intensity, workforce development and reduction in strategic dependency.

A programme that remains dependent on public support without increasing capability should be redesigned or terminated.

60.5 Protect competition

Resilience policy can create domestic monopolies if support is concentrated in one incumbent. This replaces foreign concentration with domestic concentration.

Governments should therefore evaluate market structure explicitly. Support should favour contestability, interoperability and multiple qualified suppliers where feasible.

60.6 Preserve international options

Even a country building domestic capacity should maintain international partnerships. A domestic plant can fail. A national grid can experience disruption. A local supplier can face bankruptcy.

International diversification remains a resilience asset.

Chapter 61

Designing Better Industrial Policy

61.1 Mission definition

A high-quality industrial programme begins with a measurable mission. “Become competitive” is too vague. “Reduce switching time for grid transformers from twenty-four months to six months” is measurable.

The mission should specify the public problem, time horizon and success metric.

61.2 Instrument portfolio

Industrial policy should be treated as a portfolio rather than a subsidy line. The portfolio can combine:

- public R&D,
- infrastructure,
- workforce development,
- procurement,
- tax incentives,
- concessional finance,
- standards,
- trade facilitation,
- competition policy,
- cluster development,
- export promotion.

The mix should reflect the actual constraint.

61.3 Information discipline

Governments face information problems when identifying future industries. Rodrik’s earlier industrial-policy work emphasised the importance of structured collaboration between public and private sectors to identify constraints without allowing capture. (Rodrik, 2004)

The modern version should include transparent data, competitive selection, independent evaluation and disclosure of support.

61.4 International spillovers

A domestic subsidy can shift market share from foreign firms. If multiple countries respond, the result can become a costly subsidy race.

Policy evaluation should therefore include likely foreign responses rather than treating the domestic programme in isolation.

Chapter 62

Trade Policy for a Security-Conscious Economy

62.1 Separate security measures from ordinary protection

A credible security measure should be narrow enough to identify the asset, technology or function at risk. Broad sector tariffs are more difficult to justify as targeted security instruments.

Where governments invoke security, they should publish the risk logic where disclosure is compatible with security itself.

62.2 Maintain transparency

Transparency reduces uncertainty even when countries disagree over substance. Notification, consultation and clear licensing criteria allow firms to plan.

The WTO's monitoring and committee functions therefore retain value even during periods of political tension. (World Trade Organization, 2026e)

62.3 Use regional agreements as complements

Regional agreements can deepen regulatory cooperation among partners, but they should ideally preserve compatibility with broader multilateral rules.

A world of overlapping agreements works better when firms can cumulate origin, use interoperable standards and avoid contradictory compliance obligations.

Chapter 63

Corporate Strategy: From Just-in-Time to Risk-Adjusted Efficiency

63.1 Efficiency remains important

Resilience does not eliminate cost competition. A firm that adds redundancy without measuring value can become uncompetitive.

The objective is therefore **risk-adjusted efficiency**.

The firm should compare the expected cost of disruption with the ongoing cost of redundancy.

63.2 Board-level questions

Boards overseeing globally exposed companies should ask at least twelve questions.

1. Which products fail if our largest supplier becomes unavailable?
2. Which Tier 2 and Tier 3 nodes are common across apparently different suppliers?
3. How long would qualification of an alternative source take?
4. What share of revenue depends on markets subject to geopolitical restriction?
5. Which technology licences can be revoked or restricted?
6. Which shipping routes are single points of failure?
7. What inventories are economically justified?
8. Which products can be redesigned to use more substitutable inputs?
9. Are alternative suppliers contractually reserved or merely identified?
10. Which regulations could force regional product variants?
11. How much capital expenditure is exposed to industrial-policy changes?
12. What scenario would cause the largest simultaneous revenue and supply shock?

63.3 Procurement needs a strategic category

Traditional procurement evaluates price, quality, delivery and supplier performance. Strategic procurement adds concentration, policy exposure and substitution time.

The lowest quoted price can be the highest risk-adjusted cost.

63.4 Product architecture matters

Modular products can switch components more easily. Standardised interfaces reduce supplier lock-in. Software portability reduces platform dependence.

Engineering therefore becomes part of geopolitical risk management.

63.5 Inventories should be selective

Holding large inventories of every input is expensive and often impossible. Firms should prioritise stockpiles where components are low cost, non-perishable, mission-critical and slow to replace.

The correct inventory policy is based on disruption economics rather than fear.

Chapter 64

Investor Implications

64.1 Geopolitics affects discount rates

Investors increasingly need to distinguish operating risk from policy risk. A project can be technically sound yet exposed to tariffs, export licences, sanctions, subsidy withdrawal or market-access changes.

These risks should be reflected in scenario-adjusted cash flows rather than treated as generic qualitative concerns.

64.2 Subsidy dependence is a valuation variable

A business whose economics depend on temporary public support is different from one that becomes cost-competitive after support accelerates learning.

Investors should model sunset dates, eligibility conditions and political durability.

64.3 Geographic diversification can conceal correlated risk

A portfolio with assets in several countries may still depend on one currency, one technology provider, one shipping route or one end market.

Cross-asset dependency mapping is therefore important for institutional investors.

Chapter 65

Development Strategy in a Rewired Global Economy

65.1 The old ladder is changing

The traditional development model often moved from agriculture to labour-intensive manufacturing, then toward more complex industry and services.

Automation, digital services and strategic industrial policy complicate this ladder. Labour-cost advantages remain relevant but are less decisive in highly automated sectors.

Developing economies therefore need multiple pathways.

65.2 Pathway 1: Connector manufacturing

Countries close to large markets can attract relocated assembly and suppliers. Success depends on logistics, customs, reliable power, trade agreements and skills.

The development objective should be rising domestic value added over time.

65.3 Pathway 2: Resource-linked upgrading

Mineral and energy producers can build processing and services around existing endowments. The challenge is to target stages where infrastructure and scale make economic sense.

65.4 Pathway 3: Digital services

Countries with education, connectivity and language capabilities can export services without heavy physical infrastructure.

This path benefits from the growth of digitally delivered trade documented by the WTO. (World Trade Organization, 2026b)

65.5 Pathway 4: Green industrial niches

Renewable power, low-carbon materials or specialised climate services can become export advantages if global carbon constraints tighten.

65.6 Pathway 5: Regional integration

Small national markets can pool demand through regional agreements. AfCFTA is especially important in this respect because market scale is a prerequisite for many industrial investments.

65.7 The institutional priority

Across all pathways, the highest-return reforms are often unglamorous: customs reliability, electricity, ports, standards laboratories, vocational training, contract enforcement and stable regulation.

Strategic investment follows capability, not slogans.

Chapter 66

Universities and Research Institutions

66.1 Why globalization research needs better data integration

Universities often study trade, industrial policy, geopolitics, technology and development in separate disciplines. The contemporary system requires integrated datasets.

A serious research programme should combine customs data, input-output tables, FDI, firm ownership, subsidy records, patents, shipping data, policy measures and network topology.

66.2 Research infrastructure priorities

Universities could establish observatories focused on:

- trade and investment reconfiguration,
- industrial subsidies,
- supply-chain concentration,
- strategic technologies,
- regional development effects,
- trade-policy uncertainty,
- digital trade,
- climate-trade interactions.

66.3 Reproducibility

Research should publish code, source definitions, classification decisions and uncertainty ranges where data licences permit.

Scenario results should be clearly separated from forecasts.

Chapter 67

International Institutions

67.1 A new multilateral agenda

The next generation of trade governance is likely to require more than tariff negotiation.

Priority areas include subsidy transparency, digital interoperability, crisis trade rules, export-restriction disciplines, supply-chain data, climate-trade coordination and treatment of security exceptions.

67.2 Minilateralism as a bridge

Where universal agreement is impossible, smaller groups can test standards or cooperative mechanisms that later become broader. The risk is exclusion if clubs become permanently discriminatory.

The design question is whether minilateral agreements remain open to accession and compatible with multilateral principles.

67.3 Development representation

Rules for strategic trade should include the interests of economies that lack subsidy capacity or market power. Otherwise the new system risks freezing technological concentration into the global economy.

Part IX. Research Hypotheses and Empirical Agenda

Chapter 68

Twenty-Four Testable Hypotheses

The frameworks in this study generate hypotheses suitable for empirical testing.

H1. Import concentration predicts disruption losses better than total import dependence after controlling for sector criticality.

H2. Supplier diversification improves resilience only when suppliers do not share common upstream nodes.

H3. Reshoring reduces external shock exposure but increases domestic common-mode exposure when national supplier diversity is low.

H4. Countries with stronger logistics and electricity reliability capture a larger share of supply-chain relocation after controlling for wages and market size.

H5. Greenfield FDI produces more durable connector-economy gains than trade rerouting without productive investment.

H6. Connector economies with rising domestic value added experience smaller reversals when trade policy tightens.

H7. Industrial subsidies generate stronger productivity effects in sectors with measurable learning or scale externalities.

H8. Subsidy programmes with explicit sunset and competition provisions produce higher private follow-on investment than open-ended support.

H9. Tariffs are less effective than targeted production support at increasing strategic capacity when imported inputs are important to domestic production.

H10. Broad tariff escalation reduces investment more strongly in sectors with long capital-recovery periods.

H11. Export controls accelerate substitution investment in target economies in proportion to the controlled technology's economic importance.

H12. Chokepoint leverage decays over time when substitution is technologically feasible and the target has sufficient capital.

H13. Regional trade agreements increase resilience when they expand supplier options, but reduce resilience when they concentrate sourcing inside a narrow bloc.

H14. MFN predictability has a larger proportional value for small economies than for large economies.

H15. Digital trade allows some developing economies to bypass manufacturing-stage constraints, but gains depend strongly on connectivity and skills.

- H16.** Strategic-sector investment concentrates more strongly than overall FDI because scale and security policy reinforce existing hubs.
- H17.** Industrial-policy races increase global capacity faster than coordinated laissez-faire outcomes but at higher fiscal cost and with greater overcapacity risk.
- H18.** Firms with modular product architectures recover faster from supplier disruptions than vertically optimised but inflexible firms.
- H19.** Tested migration or supplier-switching drills predict actual recovery time better than the number of nominal backup suppliers.
- H20.** Local labour-market adjustment institutions reduce political backlash to trade shocks without requiring lower national openness.
- H21.** Geopolitical alignment influences FDI more strongly in strategic sectors than in non-strategic services.
- H22.** Services trade remains more global than goods trade under moderate tariff fragmentation but becomes vulnerable under regulatory fragmentation.
- H23.** Energy-price divergence becomes a stronger predictor of industrial location as electrification and data-centre intensity rise.
- H24.** A high Globalization Reconfiguration Index combined with stable openness predicts reallocation rather than deglobalisation.

Chapter 69

Empirical Designs

69.1 Difference-in-differences

Policy changes affecting selected sectors or countries can be studied using difference-in-differences designs where treatment timing and comparison groups are credible.

Potential applications include investment-screening changes, subsidy eligibility, local-content rules and export controls.

69.2 Event studies

High-frequency market and trade data can estimate responses to discrete policy announcements, shipping disruptions or sanctions.

Event studies are especially useful for financial variables and short-run trade diversion.

69.3 Synthetic controls

Synthetic-control methods are useful for connector economies because researchers can compare post-shock trade and value-added outcomes with a weighted counterfactual group.

The IMF's work on trade patterns in connector economies illustrates this type of empirical distinction. (International Monetary Fund, 2025)

69.4 Network analysis

Input-output and firm-supplier data can identify central nodes, chokepoints and common dependencies.

Centrality measures should be combined with substitution data. A highly central node is not necessarily dangerous if alternatives can be activated quickly.

69.5 Survival analysis

Supplier, investment or plant-level data can test whether exposure to trade restrictions raises exit risk or accelerates relocation.

69.6 Structural gravity models

Gravity models remain useful for estimating how tariffs, distance, agreements and political alignment affect trade flows.

The challenge is to separate policy effects from endogenous selection into agreements or alliances.

69.7 General-equilibrium modelling

Computable and quantitative trade models are necessary to capture spillovers and reallocation across sectors and countries. WTO and IMF scenario results demonstrate the value of this approach. (Rotunno et al., 2026; World Trade Organization, 2026d)

Model results should always disclose assumptions about factor mobility, scale economies, retaliation and technology.

Chapter 70

Data Architecture for a Global Reconfiguration Observatory

A university or international institution building a research observatory should integrate the following datasets.

Data family	Examples of variables	Research use
Customs	bilateral product trade, tariffs, origin	trade diversion and concentration
Input-output	value-added links, intermediate dependence	network exposure
FDI	greenfield, M&A, ownership, sector	relocation and investment concentration
Industrial policy	subsidies, tax incentives, procurement	policy intensity
Shipping	routes, freight, port calls, transit time	logistics resilience
Firm	suppliers, revenue, plants, ownership	micro-level exposure
Technology	patents, equipment, licences, standards	innovation and chokepoints
Labour	employment, wages, occupations, regions	adjustment costs
Energy	price, reliability, generation mix	location competitiveness
Digital	data flows, services, cloud regions	digital globalization

The observatory should version all data because policy classifications change over time.

Part X. Executive and Academic Q&A

Chapter 71

Fifty Questions and Answers

71.1 1. Is globalization ending?

No single indicator supports that conclusion. World trade reached record nominal levels in 2025, FDI remained large and services trade continued to expand. What is changing is the geography and policy architecture of integration. (UN Trade and Development, 2026a, 2026c)

71.2 2. What is the strongest description of the current period?

Strategic reconfiguration. Trade remains large, but firms and governments increasingly optimise for resilience, security and political risk alongside cost.

71.3 3. Is deglobalisation occurring anywhere?

Yes, in selected relationships, technologies and sectors. Cross-border flows can fall sharply between particular pairs of countries even while global totals remain high.

71.4 4. What is geoeconomic fragmentation?

It is policy-driven reduction or redirection of economic integration along geopolitical or strategic lines. It can operate through trade, investment, finance, technology, migration or data channels. (Aiyar et al., 2023)

71.5 5. Is friend-shoring the same as diversification?

No. Friend-shoring selects suppliers partly by political alignment. Diversification increases the number or independence of supply options. A friend-shored network can still be highly concentrated.

71.6 6. Is reshoring always safer?

No. Reshoring can reduce foreign exposure while increasing domestic common-mode risk. OECD modelling finds broad relocalisation does not consistently improve resilience. (OECD, 2025)

71.7 7. Why can global trade remain high during fragmentation?

Trade can be rerouted. A product may move through different countries or new supplier relationships while the total value of trade remains similar.

71.8 8. What is the difference between rerouting and reallocation?

Rerouting changes the trade path with limited new domestic production. Reallocation creates real production and value added in the new location.

71.9 9. Why does this distinction matter?

Because reallocation builds capability, jobs and supplier ecosystems, while rerouting can disappear quickly when customs rules or tariffs change.

71.10 10. Are regional trade agreements replacing the WTO?

Not fully. Regional agreements have expanded, yet about 72 percent of merchandise trade continues under MFN terms. (World Trade Organization, 2026e)

71.11 11. Why does the WTO still matter if negotiations are difficult?

Its baseline rules, transparency, tariff bindings and institutional processes reduce uncertainty across relationships not covered by deep regional agreements.

71.12 12. What does WTO modelling say about fragmentation?

Its 2026 report estimates a geo-fragmented world could reduce global GDP by 5.1 percent and exports by 18.6 percent relative to the baseline. These are modelled counterfactuals, not forecasts. (World Trade Organization, 2026d)

71.13 13. Why are small economies more vulnerable?

They possess less bargaining power in bilateral negotiations and rely more heavily on general rules that prevent discrimination.

71.14 14. What is economic security?

It is the capacity to sustain critical economic functions and policy choice under disruption or coercion.

71.15 15. Is economic security the same as self-sufficiency?

No. Self-sufficiency is one possible strategy. Economic security can also come from diversification, inventories, alliances, substitution and adaptive capacity.

71.16 16. What makes a dependency strategic?

High criticality, concentration, low substitutability, long switching time, policy exposure and network centrality.

71.17 17. Why is supplier count insufficient?

Several suppliers can share the same upstream refinery, cloud platform, shipping route or machine tool. They may fail together.

71.18 18. What is common-mode risk?

It is the risk that apparently separate suppliers depend on the same underlying node or hazard.

71.19 19. What is the best measure of resilience?

No single measure is sufficient. The report recommends combining concentration, substitutability, switching time, reserve margin and recovery performance.

71.20 20. Why has industrial policy returned?

Governments are addressing climate goals, technology competition, supply-chain resilience, regional development and strategic capacity. (Evenett et al., 2024)

71.21 21. Does modern research support industrial policy?

The evidence is more nuanced than older debates. Recent research finds credible rationales and positive results in some contexts, but outcomes depend heavily on design and governance. (Juhász et al., 2024)

71.22 22. Are subsidies harmless if they create jobs?

No. They impose fiscal costs and can distort trade, reduce competition or trigger foreign retaliation.

71.23 23. What did the IMF's 2026 subsidy study find?

Its model finds recent subsidies can raise exports in targeted strategic sectors, while the fiscal and cross-border costs reduce global welfare. Tariffs deepen the losses in the model. (Rotunno et al., 2026)

71.24 24. Are tariffs effective industrial policy?

They can protect domestic producers, but they also raise input costs and can provoke retaliation. Their effect depends on the structure of the sector.

71.25 25. Can tariffs fix national trade deficits?

Not reliably. Current-account balances reflect savings, investment, fiscal policy and other macroeconomic factors. (Gourinchas et al., 2026)

71.26 26. Why are strategic sectors attracting more investment?

Governments and firms place greater value on AI infrastructure, semiconductors, critical minerals and energy-transition technologies. UNCTAD reports strategic sectors reached 44 percent of global greenfield investment value in 2025. (UN Trade and Development, 2026b)

71.27 27. Does more FDI mean development automatically?

No. Development gains depend on jobs, skills, supplier linkages, technology transfer and domestic value added.

71.28 28. Which economies risk being left behind?

Countries with weak infrastructure, expensive finance, limited skills or small markets face difficulty attracting strategic-sector investment. UNCTAD finds lower-income economies capture a relatively small share. (UN Trade and Development, 2026b)

71.29 29. What is a connector economy?

A jurisdiction that gains importance by linking or substituting between larger trade and investment blocs.

71.30 30. What makes connector status durable?

Local value added, productive FDI, skills, supplier development, multiple export markets and innovation capability.

71.31 31. Why does digital trade matter for developing economies?

It allows some services to cross borders without large physical logistics systems, creating alternative paths into global markets.

71.32 32. Will AI reduce globalization?

Not necessarily. AI can automate production but also lower coordination and service-trade costs. WTO modelling suggests significant potential to increase trade. (World Trade Organization, 2026e)

71.33 33. Could AI increase geographic concentration?

Yes. Capital-intensive AI and advanced manufacturing can favour locations with cheap reliable power, compute, capital and skilled labour.

71.34 34. Why are services increasingly important in manufacturing trade?

Modern products embody design, software, finance, engineering, logistics and data. Value creation therefore extends beyond the factory.

71.35 35. What is the role of energy in the new trade geography?

Electricity price and reliability increasingly influence energy-intensive industry, data centres and advanced manufacturing location.

71.36 36. Does climate policy fragment trade?

It can if carbon standards diverge strongly. It can also create new trade in clean technology and low-carbon products.

71.37 37. What is weaponised interdependence?

It describes how control over central nodes in global networks can generate information or coercive power. (Farrell & Newman, 2019)

71.38 38. Does interdependence therefore make trade undesirable?

No. The same networks produce efficiency and innovation. The policy task is to manage concentrated chokepoints without destroying the wider gains.

71.39 39. How should a government identify strategic sectors?

By testing essentiality, concentration, substitution difficulty and spillover intensity rather than relying on political importance alone.

71.40 40. How should a firm respond to geopolitical risk?

Map dependencies, qualify alternatives, redesign for substitutability, diversify routes and integrate geopolitical scenarios into capital allocation.

71.41 41. Should every critical input be stockpiled?

No. Stockpiling works best for low-cost, stable, non-perishable inputs with high disruption cost. Other inputs require capacity or supplier diversification.

71.42 42. What is the biggest mistake in resilience policy?

Treating domestic location as a substitute for system analysis.

71.43 43. What is the biggest mistake in corporate supply-chain strategy?

Counting nominal suppliers without identifying shared upstream dependencies.

71.44 44. What is the biggest risk of industrial policy?

Permanent support for politically connected incumbents without measurable capability gains.

71.45 45. What is the biggest risk of pure efficiency optimisation?

Underpricing low-frequency, high-impact disruption and strategic coercion.

71.46 46. What is the future of globalization likely to look like?

More regional duplication in selected strategic sectors, continued global trade in most goods and services, greater policy screening and stronger emphasis on digital trade.

71.47 47. What would true deglobalisation look like?

Sustained declines in trade and investment relative to economic output, widespread capital controls, major reductions in cross-border services and deep technological separation.

71.48 48. What should universities study next?

The interaction between network concentration, industrial policy, FDI relocation, labour-market adjustment, digital trade and geopolitical alignment using firm-level data.

71.49 49. What evidence would weaken the reconfiguration thesis?

A persistent multi-year decline in global trade, FDI, services and GVC participation that cannot be explained by business cycles or price effects would support a stronger deglobalisation interpretation.

71.50 50. What is the paper's main conclusion in one sentence?

Globalization is being reorganised around strategic risk, not replaced by national self-sufficiency.

Part XI. Distribution, Law and Institutional Durability

Chapter 72

The Domestic Distribution of Globalization

72.1 Aggregate gains do not settle distributional questions

Trade theory distinguishes aggregate welfare from distribution. A country can become richer in aggregate while particular workers, firms or regions lose. Political sustainability therefore depends on whether institutions can help people move toward new opportunities.

The China-shock literature documented unusually persistent local labour-market effects from import competition in the United States, with exposed regions experiencing lower employment and earnings adjustment over long periods. (Autor et al., 2016) The lesson is broader than one country or one historical episode. Adjustment is not instantaneous and workers are not perfectly mobile.

A modern globalization strategy should therefore be evaluated partly by **adjustment speed**.

72.2 Adjustment capacity as economic infrastructure

Adjustment capacity includes:

- portable social protection,
- retraining linked to actual vacancies,
- housing supply in growing regions,
- transport connectivity,
- access to finance for new firms,
- competition policy,
- regional investment,
- education and apprenticeship systems.

These institutions determine whether trade shocks produce temporary transition or long-term geographic decline.

72.3 The compensation problem

Economic models often note that aggregate winners could compensate losers. In practice, compensation is politically and administratively difficult. Transfers can be poorly targeted, arrive late or fail to replace non-monetary losses such as identity, community networks and occupational status.

The stronger approach is therefore to combine income support with capability building.

72.4 Why resilience policy can also create losers

Reconfiguration itself has distributional effects. A new subsidised factory benefits one region but the taxes financing it are national. Local-content requirements can raise consumer costs. Retaliatory tariffs can harm exporters in unrelated sectors.

Economic-security policy requires the same distributional scrutiny applied to globalization.

Chapter 73

Competition, Market Power and Strategic Policy

73.1 Strategic support can entrench incumbents

High fixed costs make many strategic sectors naturally concentrated. Public support can reinforce that concentration if subsidies flow primarily to established firms.

A resilience programme that creates one dominant domestic supplier can replace an external chokepoint with an internal one.

73.2 Competition policy and industrial policy are complements

Industrial policy is often framed as the opposite of competition policy. A more useful approach treats them as complementary.

Governments can support capability while requiring open interfaces, supplier access, licensing commitments, transparent procurement or competition for project funding.

The objective is productive capacity without permanent rent protection.

73.3 Scale economies complicate the picture

Some sectors need scale to become efficient. Excessive fragmentation can prevent firms from reaching competitive cost.

This creates a tension: resilience favours multiple suppliers, while scale favours concentration.

The optimal number of suppliers therefore depends on fixed cost, learning rates, demand size and the cost of failure.

Chapter 74

Trade Law, Security Exceptions and Rule Credibility

74.1 Economic security creates legal boundary questions

Trade agreements were designed to allow legitimate public policy while constraining disguised protection. Security-related trade measures test this boundary because governments possess genuine sovereign interests yet also have incentives to define security broadly.

A stable system requires procedural credibility even where substantive agreement is difficult.

74.2 The transparency principle

Where possible, governments should state the objective, scope, duration and review process of security measures. Transparency does not eliminate disagreement, but it allows firms and partners to distinguish targeted measures from open-ended protection.

74.3 Proportionality as a governance norm

International trade law contains multiple forms of necessity and proportionality reasoning across different agreements. This monograph's Economic Security Proportionality Test is not a legal interpretation. It is a policy-governance analogue: use the least costly instrument capable of addressing the identified risk.

74.4 Predictability has economic value

The value of rules lies partly in reducing the variance of future policy. Firms can tolerate some tariffs if the rates are known. Investment becomes harder when the rules themselves change unpredictably.

Trade-policy uncertainty therefore acts like an additional risk premium.

Chapter 75

Climate, Sustainability and the New Trade Architecture

75.1 Climate policy creates cross-border spillovers

Carbon prices, product standards, subsidies, border adjustments and green-procurement rules affect relative costs across countries. The WTO's 2026 analysis identifies environmental policy as one of the major sources of new cross-border spillovers. (World Trade Organization, 2026e)

The strategic question is whether climate policy leads to interoperable low-carbon markets or competing regulatory blocs.

75.2 Carbon intensity becomes a trade attribute

Traditional customs classification focuses on what a product is. Climate policy increasingly asks how it was produced.

This requires data on electricity mix, process emissions, transport and supply chains. Firms unable to measure embedded carbon can face market-access disadvantages even when their physical products are unchanged.

75.3 Developing-economy risk

Countries with carbon-intensive electricity grids can face competitiveness pressure even if their labour costs are attractive. Access to clean power therefore becomes a trade-development issue.

75.4 Climate resilience and supply-chain resilience intersect

Physical climate hazards create common-mode failures when multiple suppliers cluster in exposed regions. Flood, drought, heat and storms should therefore be integrated into strategic dependency mapping.

Chapter 76

The Digital Layer of Trade Governance

76.1 Digital trade does not fit old border models

A cloud service can be supplied from one country, processed in another and consumed in a third. Data can move continuously. Software is updated after sale. AI services can change behaviour without a new customs transaction.

This makes domestic regulation central to market access.

76.2 Interoperability is the new tariff reduction

In digital markets, the equivalent of tariff reduction is often regulatory interoperability: common standards, recognised certifications, compatible privacy rules and trusted cross-border data mechanisms.

Where interoperability fails, firms duplicate infrastructure and compliance systems.

76.3 Digital sovereignty and trade

Countries seek control over sensitive data and digital infrastructure for legitimate security and privacy reasons. The challenge is to distinguish controls needed for critical systems from broad localisation that raises cost and fragments services trade.

The logic mirrors physical supply chains: manage critical dependencies without assuming every foreign service is unsafe.

Part XII. Applied Research Tools

Chapter 77

Sector Scorecard Template

Researchers and policy teams can apply the following scorecard to any sector.

Variable	Measurement question	Suggested scale
Essentiality	What percentage of critical function fails after disruption?	0-5
Supplier concentration	HHI or top-three share	0-5
Country concentration	Geographic share of supply	0-5
Upstream commonality	Shared hidden nodes	0-5
Substitution	Technical alternatives available	0-5
Switching time	Time to qualify alternative	0-5
Inventory feasibility	Cost and shelf life	0-5
Policy exposure	Controls, sanctions, screening	0-5
Logistics exposure	Route and port concentration	0-5
Climate exposure	Common physical hazard	0-5
Domestic capability	Ability to produce or repair	0-5
Partner capability	Trusted external alternatives	0-5

The scorecard should be accompanied by evidence grades and uncertainty ranges.

Chapter 78

Country Reconfiguration Profile Template

A country profile should include four layers.

78.1 Layer 1: Openness

- Trade-to-GDP ratio.
- FDI inflows and stock.
- Services exports.
- Digital trade intensity.
- Number and depth of trade agreements.

78.2 Layer 2: Concentration

- Top export markets.
- Top import sources.
- Strategic-sector concentration.
- Dependence on key routes.
- Financial and currency dependence.

78.3 Layer 3: Capability

- Logistics quality.
- Electricity reliability.
- Skills.
- R&D.
- Domestic finance.
- Standards and certification infrastructure.

78.4 Layer 4: Policy exposure

- Tariffs.
- Export controls.
- FDI screening.
- Subsidy exposure.
- Sanctions risk.
- Carbon and digital regulation.

The profile should avoid reducing national strategy to one score.

Chapter 79

Firm-Level Stress Test Protocol

79.1 Step 1: Define critical products

Select products responsible for a high share of revenue, regulatory obligations or customer continuity.

79.2 Step 2: Map bill-of-material dependencies

Identify components, materials, software and services required for each product.

79.3 Step 3: Trace upstream nodes

Extend mapping beyond Tier 1 until concentration no longer increases materially.

79.4 Step 4: Assign failure modes

For each node, specify plausible disruption: logistics, policy, cyber, natural disaster, bankruptcy or conflict.

79.5 Step 5: Measure recovery time

Estimate inventory coverage, alternative qualification time and redesign time.

79.6 Step 6: Simulate simultaneous shocks

Remove the largest supplier and the largest route at the same time.

79.7 Step 7: Calculate financial exposure

Estimate lost contribution margin, penalties, working-capital needs and emergency sourcing cost.

79.8 Step 8: Compare mitigation options

Rank alternative suppliers, inventory, redesign, regionalisation and insurance according to cost per unit of risk reduction.

Chapter 80

Public-Sector Strategic Procurement Protocol

Procurement is one of the most direct ways governments influence supply chains. A strategic procurement process should include:

1. Mission criticality classification.
2. Supplier concentration analysis.
3. Country and ownership mapping.
4. Security and cyber requirements.
5. Lifecycle cost, not purchase price alone.
6. Minimum interoperability standards.
7. Second-source requirements where justified.
8. Emergency inventory or reserve capacity.
9. Contractual data rights.
10. Periodic market retesting.

Domestic preference should not substitute for these tests.

Chapter 81

Reconfiguration Event Database Design

A research database should code each major event across common fields.

Field	Example coding
Date	announcement and implementation
Jurisdiction	source and target
Instrument	tariff, subsidy, export control, screening, sanction
Sector	harmonised classification
Stated objective	security, climate, jobs, resilience, revenue
Scope	product, firm, technology, country
Duration	temporary or open-ended
Response	retaliation, subsidy, diversion, legal challenge
Trade effect	short-run bilateral change
Investment effect	announced or realised relocation
Price effect	domestic and global
Substitution	new suppliers or technology

Such a database would allow cross-event comparison rather than anecdotal analysis.

Chapter 82

Measuring True Diversification

82.1 The diversification fallacy

A company may report five suppliers in five countries and still have no real diversification if all five depend on one upstream input.

True diversification should therefore be calculated across dependency layers.

82.2 Proposed Independence-Adjusted Supplier Count

Let each supplier have an independence weight q_i between zero and one based on shared upstream nodes. The effective supplier count is:

$$N_{eff} = \sum_{i=1}^n q_i$$

If five suppliers are fully independent, $N_{eff} = 5$. If all share one critical upstream node, their combined effective count should approach one for the relevant failure mode.

The weighting method requires empirical development, but the concept highlights a key point: nominal diversification can overstate resilience.

Chapter 83

Measuring Switching Time

Switching time should be decomposed into:

$$T_{switch} = T_{identify} + T_{contract} + T_{qualify} + T_{regulatory} + T_{ramp}$$

where each term captures a distinct operational delay.

This decomposition helps identify the cheapest intervention. If regulatory qualification dominates, mutual recognition might matter more than inventory. If ramp time dominates, reserved capacity is more useful.

Chapter 84

Measuring Policy Exposure

A Policy Exposure Score should combine:

- probability of licence requirement,
- breadth of security screening,
- tariff volatility,
- sanctions exposure,
- domestic-content eligibility,
- subsidy dependence,
- regulatory divergence.

Researchers should avoid assigning subjective probabilities without transparent justification. Historical frequency and legal scope can provide measurable proxies.

Part XIII. Detailed Scenario Tables

Chapter 85

Scenario Outcome Matrix

The matrix is split into two linked views to preserve readability. Outcomes are directional rather than quantitative.

Trade, investment and cost effects

Scenario	Trade volume	Investment	Costs
Managed interdependence	High	Diversified	Moderately higher
Techno-blocs	Lower cross-bloc	Bloc-concentrated	Higher
Tariff escalation	Lower	Weaker	Higher
Subsidy race	Mixed	Strategic-sector boom	Fiscal cost higher
Coordinated policy	High	More predictable	Moderate
Global recession	Lower	Sharply weaker	Demand-dependent
Semiconductor shock	Constrained	Emergency investment	Higher
Mineral shock	Constrained	Mining and recycling boom	Higher
Maritime disruption	Route-dependent	Regional logistics	Higher
Digital fragmentation	Goods less affected	Regional digital stacks	Compliance higher
Multilateral renewal	Higher	Broader	Lower uncertainty
Development breakthrough	Higher	More geographically spread	Competitive

Resilience, technology and development effects

Scenario	Resilience	Technology diffusion	Developing economies
Managed interdependence	Higher	Broad	Mixed-positive
Techno-blocs	Higher inside blocs, lower globally	Slower cross-bloc	Polarised
Tariff escalation	Ambiguous	Slower	Negative overall

Scenario	Resilience	Technology diffusion	Developing economies
Subsidy race	Capacity higher	Regionally uneven	Difficult for low-fiscal-capacity states
Coordinated policy	Higher	Broad	More inclusive
Global recession	Supplier exits raise risk	Slower	Negative
Semiconductor shock	Depends on alternatives	Accelerated substitution	Importers vulnerable
Mineral shock	Improves over time	Chemistry substitution	Resource exporters gain selectively
Maritime disruption	Route diversity valuable	Limited effect	Import-dependent states exposed
Digital fragmentation	Regional resilience	Slower cross-border	Small firms disadvantaged
Multilateral renewal	Higher via diversification	Faster	Stronger inclusion
Development breakthrough	Higher global diversity	Broader	Strongly positive

Chapter 86

Regional Exposure Matrix

Region	Main opportunity	Main exposure	Priority capability
North America	Near-shoring and strategic manufacturing	Imported upstream inputs	Supplier depth and infrastructure
Europe	Regulatory scale and advanced industry	Energy and technology dependencies	Innovation, energy and capital scale
East Asia	Dense manufacturing ecosystems	Geopolitical concentration	Diversification without losing scale
South Asia	Services plus manufacturing growth	Infrastructure and logistics	Power, customs, skills
ASEAN	Connector production	Alignment pressure	Domestic value-added deepening
Gulf	Logistics, capital, energy	Route and regional security	Industrial ecosystems and talent
Latin America	Near-shoring, minerals, clean energy	Commodity dependence	Processing and supplier linkages
Africa	Regional integration and resources	Infrastructure and finance	Power, transport, market integration
Small island economies	Services and niche centrality	Scale and logistics	Digital connectivity and institutional quality

Chapter 87

Sector Exposure Matrix

Sector	Criticality	Concentration	Switching time	Primary resilience tool
Advanced semiconductors	Very high	Very high	Long	trusted diversification and capability building
Critical minerals processing	High	High	Long	new capacity, recycling, substitution
Essential medicines	Very high	Variable	Medium	stockpiles plus qualified multi-sourcing
Food staples	Very high	Usually diversified globally	Short-medium	diversified imports and reserves
Cloud services	High for digital economy	High provider concentration	Medium-high	portability and multi-region design
Grid transformers	Very high	Capacity constrained	Long	strategic inventories and supplier expansion
Consumer textiles	Low-moderate	Low	Short	ordinary market diversification
Professional digital services	Medium-high	Low at firm level	Short-medium	interoperability and skills

Part XIV. Glossary

Chapter 88

Controlled Definitions

Autarky. An economic system seeking extensive self-sufficiency and limited dependence on foreign trade.

Carbon border adjustment. A mechanism that applies a carbon-related charge or requirement to imports based on production emissions or related policy criteria.

Chokepoint. A node whose disruption has outsized effects because alternatives are limited.

Common-mode failure. Simultaneous failure of nominally separate suppliers because they share an upstream dependency or hazard.

Comparative advantage. The principle that economies gain from specialising in activities with lower opportunity cost relative to others.

Connector economy. An economy linking or substituting between larger trade and investment networks during reconfiguration.

Criticality. The degree to which failure of an input or service impairs an essential function.

Deglobalisation. Sustained reduction in cross-border economic integration rather than mere redistribution of flows.

Digital trade. International trade enabled or delivered through digital technologies, including digitally ordered or digitally delivered transactions.

Economic coercion. Use of economic relationships or restrictions to influence another actor's behaviour.

Economic security. Capacity to maintain critical functions and policy choice under external economic disruption or pressure.

Export control. Government restriction or licensing requirement on the export of specified goods, technologies, software or services.

Foreign direct investment. Cross-border investment involving lasting interest and influence in an enterprise.

Friend-shoring. Sourcing or investment preference toward politically or strategically aligned jurisdictions.

Goeconomic fragmentation. Policy-driven reduction or redirection of economic integration along geopolitical lines.

Global value chain. A production network in which stages of value creation occur across multiple countries.

Greenfield investment. Investment establishing a new operation or physical capacity rather than acquiring an existing enterprise.

Industrial policy. Targeted government intervention intended to alter productive structure or technological capability.

Interoperability. Ability of systems, standards or services to function together without costly conversion.

Local-content requirement. Rule requiring a specified share of goods, services or inputs to originate domestically.

Most-favoured-nation treatment. WTO principle under which a trade advantage given to one member is generally extended to others, subject to permitted exceptions.

Near-shoring. Relocating production closer to the destination market.

Network centrality. A measure of how structurally important a node is within a network.

Non-tariff measure. A policy measure other than an ordinary tariff that affects trade.

Reallocation. Shift of production and value added from one location to another.

Regionalisation. Increasing concentration of trade and production within geographic regions.

Relocalisation. Movement of production toward domestic locations.

Reshoring. Returning production to the home country.

Resilience. Ability to anticipate, absorb, adapt to and recover from disruption.

Rerouting. Change in trade path with limited change in underlying production.

Rules of origin. Criteria used to determine the national origin of a product for trade-policy purposes.

Strategic autonomy. Capacity to pursue important policy objectives without unacceptable external dependence.

Strategic interdependence. Managed cross-border dependence in which critical risks are identified and mitigated without abandoning beneficial integration.

Strategic sector. A sector whose disruption or capability has material implications for security, essential services or broad industrial capacity.

Substitutability. Ability to replace an input, supplier or technology without unacceptable cost or delay.

Supply-chain concentration. Dependence on a small number of suppliers, countries, routes or technologies.

Trade diversion. Shift in trade from one supplier to another because of policy or relative-cost changes.

Trade reallocation. Expansion of real production and domestic value added in a new supplier economy.

Weaponised interdependence. Use of asymmetric global network positions for coercive or informational advantage.

Part XV. Competing Interpretations and Counterarguments

Interpretation 1: The World Is Deglobalising

The deglobalisation thesis points to higher tariffs, export controls, investment screening, geopolitical tension, industrial subsidies and supply-chain relocation. It argues that the post-1990 model of deep integration has reached a political limit and that governments are rebuilding national or regional economic capacity.

This interpretation captures a real policy shift. Industrial policy is more visible, economic-security language is mainstream and strategic sectors face more intervention. (Evenett et al., 2024; OECD, 2026d) It would be a mistake to dismiss these changes as rhetoric.

The weakness of the strongest deglobalisation claim is empirical. World trade remains large, services trade continues expanding, global FDI remains substantial and OECD evidence does not show a uniform collapse of GVC participation. (OECD, 2026b; UN Trade and Development, 2026a, 2026c)

The more defensible version is therefore **selective deglobalisation**: some relationships and sectors are decoupling even while the global system as a whole remains integrated.

Chapter 90

Interpretation 2: The World Is Reglobalising

The reglobalisation thesis argues that firms are not abandoning international production but spreading it across more countries. New hubs emerge as companies diversify beyond established centres.

This interpretation fits evidence on connector economies, near-shoring and regional investment. It also explains why aggregate trade can remain high despite dramatic changes in bilateral flows.

The weakness is that relocation is not always diversification. If multiple new production locations rely on the same upstream technology, the system remains concentrated. Reglobalisation therefore requires network-level evidence, not country counts alone.

Chapter 91

Interpretation 3: Globalization Is Regionalising

The regionalisation thesis emphasises the growth of trade agreements, regional production systems and proximity-based sourcing.

There is strong evidence for regional depth in North America, Europe and East Asia. The number of RTAs in force is large and continues to grow. (World Trade Organization, 2026c)

Yet regionalisation is incomplete. Most regions depend on cross-regional energy, technology, capital, raw materials and services. The semiconductor example is decisive: even dense regional production networks rely on specialised capabilities located elsewhere.

Regionalisation is therefore best understood as one layer of a multi-regional global system.

Chapter 92

Interpretation 4: Globalization Is Becoming Digital

This thesis argues that physical goods trade may mature while digital services, software, data and remote professional activity drive the next phase of integration.

WTO evidence supports the growing role of digitally delivered services and AI-enabled trade. (World Trade Organization, 2026b, 2026a)

The main counterargument is that digital services depend on physical infrastructure: data centres, semiconductors, electricity, undersea cables and cloud platforms. Digital globalization does not escape geography. It changes which geographies matter.

Chapter 93

Interpretation 5: The Return of the State Is Replacing the Market

Industrial policy, subsidies, screening and procurement create the impression that governments are taking control of production geography.

Governments are unquestionably more active, but private firms still make most investment, sourcing and innovation decisions. Policy changes incentives rather than replacing markets entirely.

A more accurate description is a shift from market-led globalisation toward a **hybrid state-market architecture** in strategic sectors.

Chapter 94

Interpretation 6: Security Concerns Are Primarily Protectionism

Some critics argue that security language provides political cover for ordinary protection of domestic industries.

This risk is real. Security concepts can be difficult to falsify, and firms have incentives to frame commercial interests as strategic interests.

Yet the existence of lobbying does not eliminate genuine vulnerabilities. Concentration in semiconductors, critical inputs, medicines or digital infrastructure can create real systemic risk.

The appropriate response is not to reject economic security but to impose stronger evidence and proportionality requirements.

Chapter 95

Interpretation 7: Strategic Autonomy Is Economically Impossible

Another critique argues that complex modern economies cannot be autonomous because production requires thousands of globally distributed inputs.

If autonomy means full self-sufficiency, this critique is persuasive. Complete domestic production is unrealistic for most countries.

If autonomy means preserving strategic choice and maintaining alternatives for critical functions, the concept becomes more practical.

The distinction between autonomy and autarky is therefore essential.

Interpretation 8: Fragmentation Will Create New Development Opportunities

Reconfiguration can move production toward countries previously outside major value chains. Mexico, Vietnam and other connector economies illustrate the possibility. (Arizala et al., 2025; International Monetary Fund, 2025)

Yet opportunity is uneven. Strategic investment is concentrated, and poorer economies often lack power, logistics, skills or financing. (UN Trade and Development, 2026b)

The correct conclusion is conditional: fragmentation creates openings, but domestic capability determines who captures them.

Chapter 97

Synthesis of the Debate

No single interpretation describes every sector.

Commodity trade can remain global while semiconductors become more strategic. Digital services can integrate while data regulation fragments. Automotive supply chains can regionalise while critical minerals remain cross-regional. FDI can concentrate in strategic sectors while ordinary services remain open.

The contemporary global economy is therefore best described as **heterogeneous strategic re-configuration**.

This conclusion is less dramatic than “the end of globalization,” but analytically stronger because it accommodates divergent sectoral pathways.

Part XVI. Source Architecture and Research Reliability

Chapter 98

Why Source Selection Matters

Globalization is politically contested and empirically complex. The same trade flow can be described as resilience, protectionism, diversion or industrial development depending on the analyst's framework.

This report therefore relies primarily on sources with transparent methodology and institutional accountability.

98.1 WTO sources

WTO sources are strongest for trade rules, tariff architecture, regional agreements, services trade and multilateral scenario modelling. The World Trade Report 2026 is especially relevant because it directly models alternative institutional futures. (World Trade Organization, 2026e)

Limitations include the fact that WTO modelling rests on assumptions and that the institution has an organisational interest in the value of multilateral cooperation. Model results are therefore treated as evidence, not as neutral certainty.

98.2 OECD sources

OECD data are valuable for supply-chain concentration, industrial subsidies, TiVA and resilience modelling. (OECD, 2025, 2026d, 2026b)

The OECD's advanced-economy membership can influence issue emphasis, but its datasets and methods provide useful empirical discipline.

98.3 UNCTAD sources

UNCTAD provides broad coverage of trade and FDI, with particular attention to development. (UN Trade and Development, 2026a, 2026c)

UNCTAD statistics are especially useful for investment concentration and developing-economy implications.

98.4 IMF sources

IMF research contributes macroeconomic, trade-model and geoeconomic-fragmentation analysis. IMF working papers represent authors' research rather than official institutional positions, a distinction maintained in the report. (Aiyar et al., 2023; Gourinchas et al., 2026; Rotunno et al., 2026)

98.5 World Bank sources

World Bank research provides historical and development context on GVCs and current macroeconomic conditions. (World Bank, 2020, 2026)

98.6 Academic research

Peer-reviewed sources are used to evaluate industrial policy, trade adjustment, political backlash and network power. (Autor et al., 2016; Farrell & Newman, 2019; Juhász et al., 2024; Walter, 2021)

Academic evidence is strongest when causal identification is credible but can lag fast-moving policy changes.

Chapter 99

Triangulation Rules

The report follows four triangulation rules.

Rule 1. Current quantitative claims should rely on current institutional data where possible.

Rule 2. Structural causal claims should rely more heavily on peer-reviewed research.

Rule 3. Policy announcements should not be treated as implemented outcomes.

Rule 4. Scenario results should never be written as forecasts unless a source explicitly provides a forecast.

Chapter 100

Common Measurement Errors

100.1 Nominal trade versus real trade

Trade values rise with prices. A record nominal value does not necessarily mean record physical volume.

100.2 Gross exports versus domestic value added

A country can export a high-value product while much of the value originates abroad.

100.3 Announced FDI versus realised investment

Greenfield project announcements can be cancelled or delayed. Where possible, research should distinguish announced capital expenditure from realised flows.

100.4 Subsidy counts versus subsidy value

A large number of policy measures does not necessarily equal a large fiscal transfer. Databases differ in what they record.

100.5 Country origin versus ownership

A product assembled in one country can be produced by a foreign-owned firm using imported inputs.

100.6 Trade partner versus ultimate dependency

Bilateral customs data may hide upstream dependencies several tiers away.

100.7 Policy alignment versus political alignment

Two countries can cooperate commercially while disagreeing geopolitically. Friend-shoring measures should therefore be coded based on actual policy, not inferred ideology.

Chapter 101

Reproducibility Standard

Future empirical versions of this work should publish:

- source datasets,
- date of extraction,
- product classifications,
- sector mappings,
- country group definitions,
- code for index construction,
- missing-data treatment,
- sensitivity tests,
- alternative weighting schemes,
- confidence intervals where estimable.

The proposed indices in this report remain conceptual until subjected to such testing.

Part XVII. Extended Policy Checklists

Chapter 102

Government Economic-Security Checklist

Before introducing a trade or industrial measure, a government should answer the following.

1. What critical function is at risk?
2. What evidence demonstrates the vulnerability?
3. Is the dependency concentrated by firm, country, technology or route?
4. Is the risk current or hypothetical?
5. What is the estimated disruption cost?
6. What is the probability range?
7. How long would substitution take?
8. Is inventory feasible?
9. Can product redesign reduce dependence?
10. Can a mutual-assistance arrangement solve the problem?
11. Can procurement create a second supplier without tariffs?
12. What domestic infrastructure constraint prevents diversification?
13. What subsidy would be required?
14. How long should support last?
15. What competition safeguards are needed?
16. What consumer price effect is expected?
17. What foreign retaliation is plausible?
18. What developing-country spillovers arise?
19. Is the measure compatible with international commitments?
20. What is the sunset and review process?

Chapter 103

Corporate Supply-Chain Checklist

1. Map revenue by jurisdiction.
2. Map suppliers beyond Tier 1.
3. Identify shared upstream nodes.
4. Identify route concentration.
5. Measure inventory coverage.
6. Measure qualification time.
7. Reserve alternative capacity.
8. Test software and cloud portability.
9. Review export-control exposure.
10. Review sanctions and ownership exposure.
11. Model tariff pass-through.
12. Model currency interaction.
13. Classify products by criticality.
14. Redesign for modularity where economic.
15. Establish crisis decision rights.
16. Create alternate logistics routes.
17. Run annual disruption exercises.
18. Link resilience metrics to capital budgeting.
19. Report material concentration risk to the board.
20. Recalculate after acquisitions or supplier changes.

Chapter 104

Investor Due-Diligence Checklist

1. What share of revenue depends on one foreign market?
2. What share of cost depends on one supplier country?
3. Are subsidies embedded in forecast margins?
4. When do subsidies expire?
5. Could tariff changes alter demand?
6. Does the firm possess pricing power?
7. How concentrated is its technology stack?
8. What is the replacement time for critical equipment?
9. Are key patents or licences jurisdictionally exposed?
10. Are data flows vulnerable to localisation rules?
11. Does energy cost create location risk?
12. Does the firm have a credible second-source plan?
13. Is working capital sufficient for larger inventories?
14. Are capital projects sensitive to FDI screening?
15. Are ESG and climate requirements changing market access?

Chapter 105

University Research Checklist

1. Separate gross and value-added trade.
2. Use product-level concentration where possible.
3. Code policy implementation dates precisely.
4. Distinguish announcements from realised investment.
5. Identify transshipment risk.
6. Control for business cycles.
7. Test alternative geopolitical groupings rather than assuming one.
8. Include services, not only goods.
9. Measure local labour-market outcomes.
10. Publish uncertainty and replication code.

Part XVIII. Limitations and Falsifiability

Chapter 106

Limitations

106.1 Rapid policy change

The evidence cut-off is 19 September 2026. Trade measures, negotiations and investment decisions can change quickly. Readers should verify current policy status before using the paper for operational decisions.

106.2 Scenario uncertainty

The scenarios are designed for stress testing, not probability assignment. Their purpose is to reveal dependencies and robust strategies.

106.3 Data incompleteness

Supply-chain data beyond Tier 1 remain limited. Private firms do not disclose all suppliers, contracts or inventories. Services and digital trade are measured less completely than goods.

106.4 Classification uncertainty

Strategic-sector definitions vary. A sector can be strategic in one jurisdiction but ordinary in another.

106.5 Political variables

Political alignment is difficult to quantify without subjective coding. This report therefore prefers observed policy measures over ideological classification.

106.6 Model transferability

WTO, OECD and IMF simulations use different assumptions. Their numeric results should not be combined as though they come from one model.

106.7 Causal inference

Observed relocation can result from wages, demand, exchange rates, technology, policy or firm strategy. Attribution requires careful empirical design.

106.8 Index validation

The Strategic Dependency Score and Globalization Reconfiguration Index are proposals. They have not been validated against a large panel of disruptions.

Chapter 107

Falsifiability Tests

A serious framework should state what evidence would weaken it.

The strategic-reconfiguration thesis should be revised toward a stronger deglobalisation thesis if cross-border trade, services, FDI and GVC participation all decline persistently relative to global output across multiple years and the decline is not explained by recession or prices.

The concentration framework should be revised if supplier concentration fails to predict disruption losses once firm size, inventories and sector are controlled for.

The substitutability emphasis should be revised if qualification and switching time do not predict recovery performance.

The proportionality framework should be revised if broad localisation consistently improves resilience at lower total cost than targeted diversification.

The connector-quality framework should be revised if rerouting economies produce development outcomes comparable to countries with genuine domestic value-added expansion.

The industrial-policy governance framework should be revised if programmes without sunset, competition or evaluation provisions systematically outperform disciplined programmes.

Part XIX. Publication and Quality Audit

Chapter 108

Factual Audit

Before publication, the following controls are required.

- Verify all 2026 quantitative claims against source publications.
- Confirm dates and distinguish publication date from data year.
- Label WTO, OECD and IMF model results as simulations.
- Separate institutional findings from the author's analytical frameworks.
- Avoid presenting policy announcements as completed investment.
- Preserve institutional disclaimers for IMF working-paper findings.
- Verify that regional examples do not imply unsupported causal claims.

Chapter 109

Quantitative Audit

- Recalculate all percentages shown in figures.
- Confirm figure units.
- Verify that the US\$35 trillion trade figure refers to goods and services in 2025.
- Verify the US\$1.6 trillion FDI figure and its 2025 basis.
- Verify the 44 percent strategic greenfield share and 16 percent 2020 comparison.
- Verify the OECD US\$108 billion subsidy estimate for 2024.
- Verify the 72 percent MFN merchandise-trade share.
- Verify WTO scenario estimates of -5.1, -18.6, -6.9, -26.9, +2.9 and +17.9 percent.
- Verify the OECD model result of more than 18 percent lower trade and more than 5 percent lower real GDP under broad relocalisation.

Chapter 110

Conceptual Audit

- Keep deglobalisation separate from reallocation.
- Keep diversification separate from friend-shoring.
- Keep resilience separate from self-sufficiency.
- Keep trade diversion separate from trade reallocation.
- Keep national origin separate from ownership and value added.
- Keep observations separate from projections and scenarios.
- Keep political alignment separate from measured policy alignment.

Chapter 111

Layout Audit

- No blank first page.
- No blank content pages.
- No text outside page boundaries.
- No broken tables or figures.
- No orphaned chapter headings.
- No headings split into unreadable fragments.
- No unresolved citation keys.
- No broken URLs in references.
- Equations render correctly.
- Figure captions remain attached to figures.
- Fonts are embedded.
- Page numbers and headers are consistent.
- Title page is unnumbered.
- Table of contents is complete.
- Images remain legible at print resolution.

Chapter 112

Conclusion

The global economy is entering a period in which international integration remains economically indispensable while unmanaged dependency is treated as a strategic risk.

This combination explains the apparent contradiction of 2026. World trade remains near record scale. Foreign direct investment continues to cross borders. Services and digital trade are expanding. Most merchandise trade still moves under multilateral MFN terms. Yet industrial subsidies are rising, investment screening is expanding, strategic-sector investment is concentrating and firms are redesigning supply chains around risk as well as cost. (OECD, 2026d; UN Trade and Development, 2026c; World Trade Organization, 2026e)

The evidence therefore does not support a simple return to national self-sufficiency.

Globalization is changing form.

The central organising principle of the previous era was efficiency through specialisation. The emerging principle is **risk-adjusted specialisation**. Firms still seek scale and comparative advantage, but they increasingly place a price on concentration. Governments still value trade and investment, but they increasingly differentiate between ordinary commerce and strategic capability.

This shift creates genuine policy challenges.

Too little attention to concentration can expose economies to chokepoints, coercion and catastrophic disruption. Too much emphasis on national production can destroy scale economies, raise prices, reduce innovation and make smaller countries more vulnerable. WTO and OECD modelling both indicate that broad fragmentation or relocation carries large potential economic costs. (OECD, 2025; World Trade Organization, 2026d)

The correct objective is therefore neither frictionless globalization nor autarky.

It is resilient interdependence.

Resilient interdependence rests on five principles.

First, map the system rather than the final supplier. Strategic dependencies often hide several layers upstream.

Second, distinguish concentration from foreignness. A foreign supplier with many substitutes may be safer than a domestic monopoly.

Third, match the instrument to the failure. Stockpiles, diversification, redesign, research support, infrastructure and trade cooperation should be compared before governments reach for tariffs or permanent subsidies.

Fourth, preserve competition and adjustment. Industrial policy should create capability rather than protected incumbency, while domestic labour and regional policies should help societies absorb trade shocks.

Fifth, preserve a multilateral floor. Regional agreements and strategic partnerships can deepen cooperation, but general rules remain especially valuable to small and developing economies that lack bilateral bargaining power.

The implications for development are equally important. The new geography of investment will create new hubs, but strategic-sector capital is already concentrated. Countries seeking to benefit from reconfiguration need more than low wages or natural resources. They need reliable power, logistics, skills, standards, finance and credible institutions. (UN Trade and Development, 2026b)

For firms, geopolitical risk is becoming an engineering, procurement and capital-allocation variable. Supplier maps, modular product design, alternate routes, inventory policy and technology portability belong in the same strategic conversation as market growth and margins.

For universities and researchers, the field requires a more integrated methodology. Trade economists, political scientists, network scientists, industrial-organisation researchers, engineers and development scholars are increasingly studying different parts of the same system. The next generation of research should connect them.

The central proposition of this monograph is therefore straightforward:

Globalization is not disappearing. It is being reorganised around the management of strategic dependence.

The countries, firms and institutions that perform best will not be those that eliminate every external relationship. They will be those that understand which dependencies matter, preserve alternatives where failure would be costly, maintain the benefits of scale and exchange where risks are manageable, and retain enough institutional capacity to adapt when the geography of the global economy changes again.

That is the new geography of globalization.

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