

RBI Quarterly  
No. 3/24

# A New Phase of Globalization: Debunking Myths in the Era of Industrial Policy

OCTOBER 2024

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## Abstract

The narrative of "deglobalization" oversimplifies the complexities of the current global economic landscape. While traditional indicators such as trade openness and FDI may suggest a slowdown, a deeper analysis reveals that globalization is evolving rather than retreating. The surge in greenfield investments and trade growth with connector countries, particularly in sectors shaped by geopolitical tensions, techno-nationalism, and the green transition, point to the emergence of more intricate and regionally diverse global value chains.

Industrial policy has reemerged as a central force, particularly in advanced economies, reshaping globalization in response to disruptions and the growing need for economic resilience. This resurgence is challenging traditional economies of scale and fostering a new phase of globalization, where some supply chains are becoming shorter but more diverse as 'Factory East Asia' relocates closer to clients. Meanwhile, other supply chains are broadening, achieving new economies of scale by navigating industrial policies on a global level.

In this evolving landscape, multinational enterprises (MNEs) either from the West or East must adapt strategically. Scenario planning, smart localization, and operational optimization are critical to navigating the complexities driven by industrial policies. Businesses that embrace these strategies will be better positioned to capitalize on new trade and investment opportunities, thriving in a world that remains interconnected but increasingly fragmented.

- ## Globalization in Transition: Navigating Shifts in Trade and FDI Flows

In recent years, the global economy has faced a series of significant disruptions, from the 2008 financial crisis to the COVID-19 pandemic, and ongoing geopolitical conflicts, including the wars in Ukraine and Middle East. These shocks have disrupted supply chains and strained international trade, sparking debates about whether globalization is slowing, reversing, or evolving into something new. Adding to this uncertainty is the strategic rivalry between the US and China, which has further fueled the narrative of "deglobalization", moving beyond the "slowbalization" narrative that emerged as global trade openness reached a plateau.

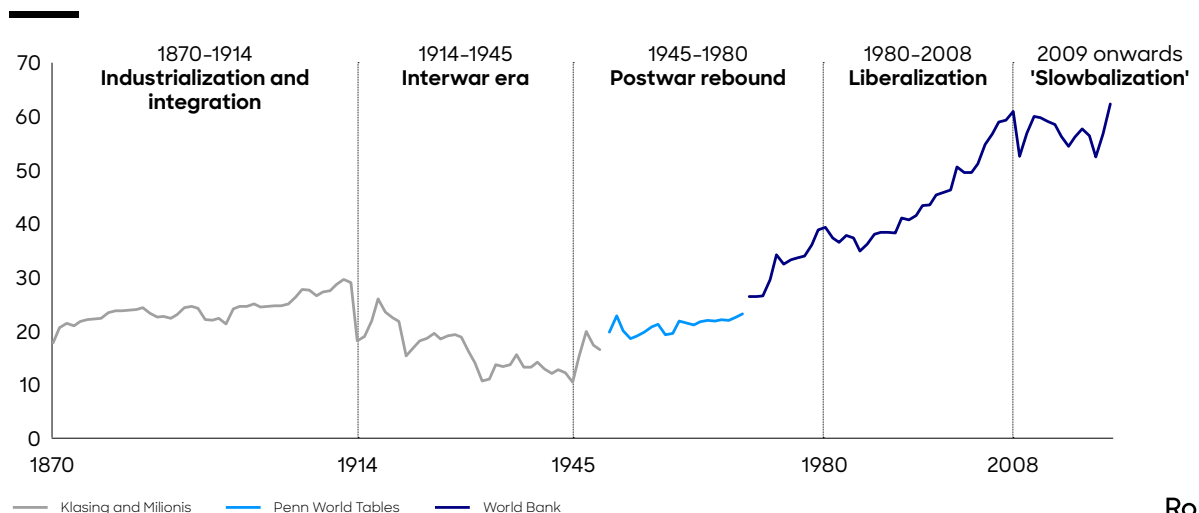
However, a closer look at key economic metrics, particularly in trade and foreign direct investment (FDI), challenges this narrative. While traditional indicators may signal a slowdown in global interconnectedness, a more nuanced analysis suggests that globalization is not unraveling but transforming into a more complex network of trade and FDI flows.

### *Rethinking Globalization: Beyond "Deglobalization"*

Traditional metrics, such as global trade openness (the sum of exports and imports as a percentage of global GDP) and FDI, have shaped much of the narrative of a "deglobalization." Global trade openness, which has expanded significantly over the past 150 years – with notable exceptions during the interwar period – has indeed slowed since the global financial crisis. Similarly, FDI flows, a key driver of globalization, have experienced only sluggish growth since 2015, contributing to the perception of declining global interconnectedness.

## Since the global financial crisis, globalization has stalled on an uneven plateau, prompting talks about "slowbalization"

Global trade openness measured by volume of world trade's share in global GDP, 1870-2022 [%]



Source Our World in Data, Penn World Tables, World Bank

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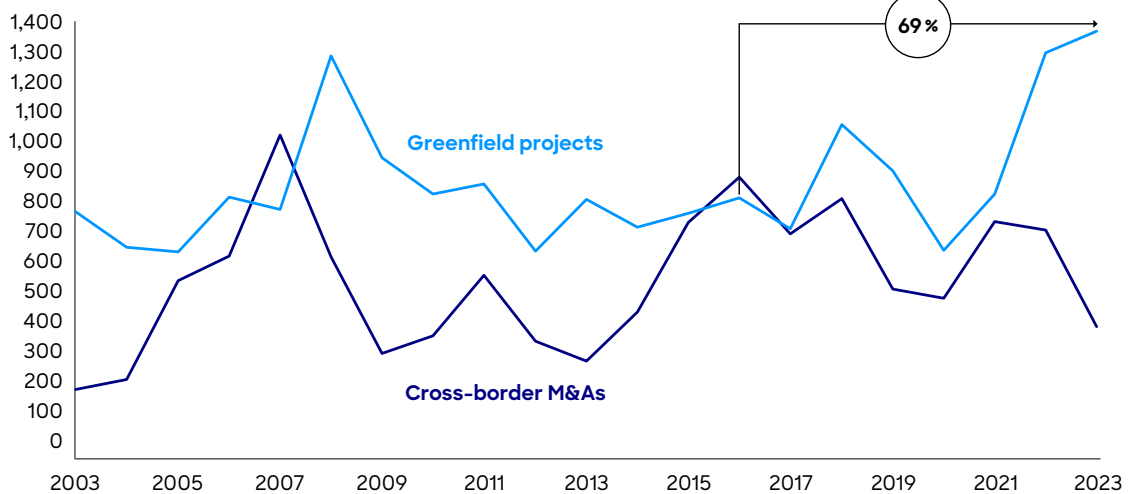
Yet, these trends do not indicate a reversal of globalization but rather an evolutionary change of its form and contours. In particular, the dynamics of FDI flows reveal a shift from traditional brownfield investments (like cross-border mergers and acquisitions) to greenfield investments, where companies establish new facilities abroad. This shift is a sign of companies adapting to new geopolitical and economic realities.

***Shifting FDI Trends: The Rise of Greenfield Investments Amid Geopolitical Uncertainty***

Foreign direct investment is a critical tool for understanding global economic integration. While overall FDI flows have been slightly tilting downward in recent years, greenfield investments – typically initiated by multinational enterprises (MNEs) to build new production facilities or to relocate their supply chains – have surged. Between 2016 and 2023, the global value of greenfield projects increased by 69%, while cross-border mergers and acquisitions (M&A) fell by 57%. This divergence reflects the growing caution around large M&A deals due to heightened geopolitical risk, regulatory scrutiny, and rising interest rates.

**Widening gap: MNEs' shift toward greenfield investments expands the divide between greenfield and brownfield projects**

Value of cross-border M&As and announced greenfield FDI globally [USD, bn]



Source UNCTAD

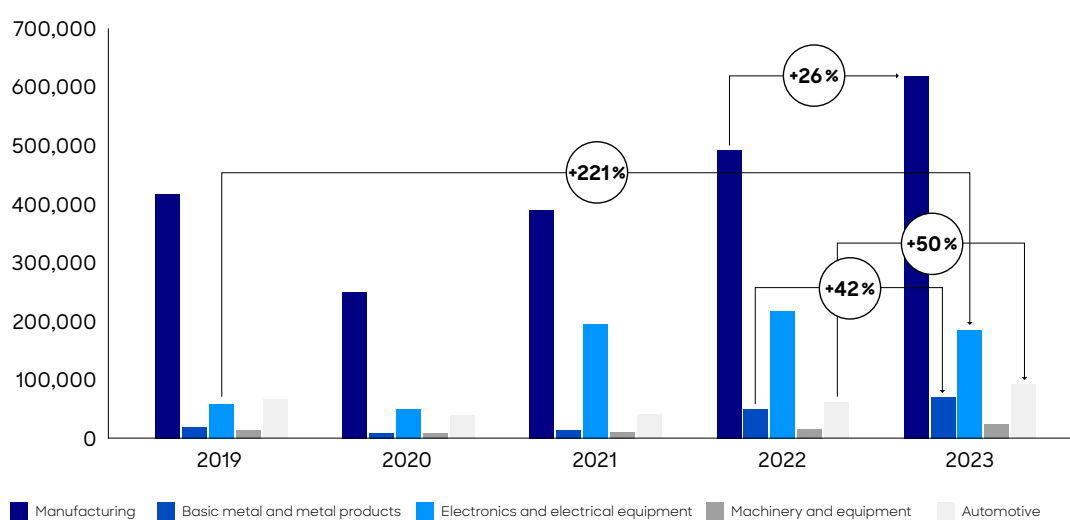
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In contrast, greenfield investments are increasingly driven by companies seeking to mitigate geopolitical and tariff risks, and benefiting from industrial policies in advanced economies, particularly in the electronics industry. In 2023, the value of greenfield projects in developing countries surged by 20%, largely fueled by Chinese companies' efforts to diversify their production in Southeast Asia and Mexico. Although the value of greenfield projects in developed countries declined by 8% in 2023, renewable energy and electronics continued to dominate as the top sectors attracting FDI in Europe and North America, influenced by favorable policies.

Despite an overall 5% growth in the value of greenfield projects in 2023, the increase in manufacturing paints a brighter picture, with a 26% rise. This growth was notably driven by Global Value Chain-related sectors like the automotive industry, which saw a 50% increase due to strong demand for hybrid and electric vehicles spurred by policy incentives. This also boosted investment in basic metals and metal products, which experienced a 42% growth rate, with a geographic concentration in Latin America and the Caribbean. While the value of greenfield FDI in electronics and equipment declined in 2023, it has doubled between 2019 and 2023 in response to supply chain disruptions following the COVID-19 pandemic and concerns on rising geopolitical tension.

## Global value chain-related sectors drive greenfield FDI in manufacturing

Growth rate of greenfield FDI calculated by value with sectorial breakdown [%]



Source UNCTAD

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### *Beyond Greenfield Investment: Other Indicators of Globalization's Persistence*

Beyond investment metrics, other indicators suggest that global interconnectedness is far from declining. People flows, including labor migration and tourism, continue to rise. International tourism, which was severely impacted by the pandemic, rebounded to 88% of pre-pandemic levels in 2023 and is expected to surpass those levels in 2024.

Similarly, political and scientific cooperation, as measured by international organizations and joint research initiatives, remains strong. For instance, despite geopolitical tensions, the number of roles and positions within international organizations such as the United Nations continues to grow, demonstrating a formal expansion of global political integration.

In essence, while traditional measures of globalization may suggest a slowdown, the underlying forces – particularly the shift in FDI patterns – tell a different story. Globalization is not reversing but entering a new phase, characterized by a more intricate web of trade, investment, and corporate strategy.

## • The pursuit of resilience drives shifting globalization

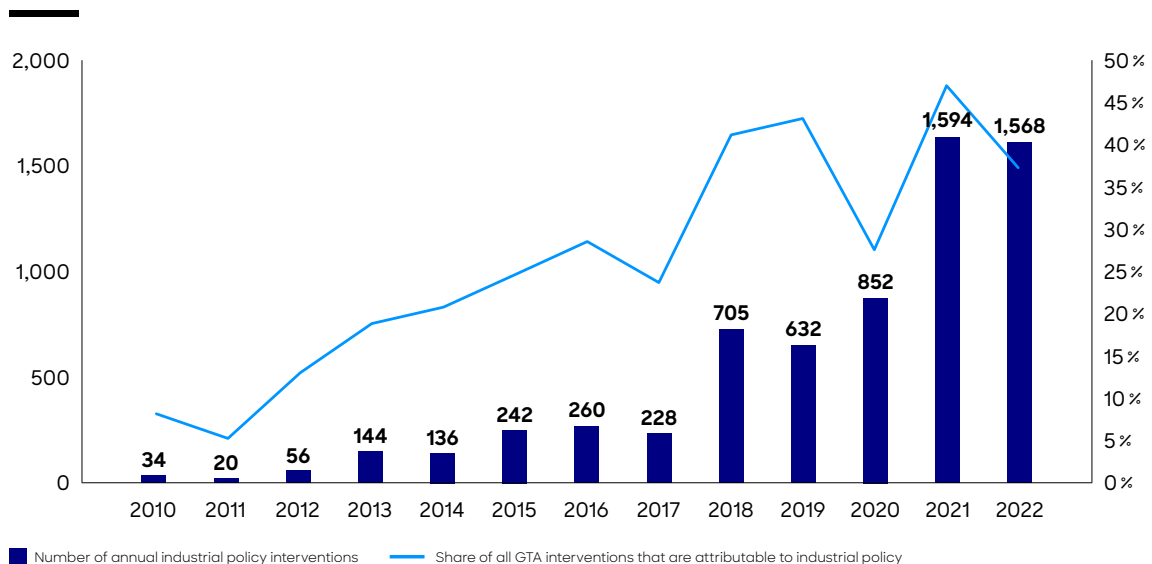
In recent years, companies have faced significant operational and financial challenges due to disruptions, such as the COVID-19 pandemic and the Russian invasion of Ukraine, which severely impacted hyper-global supply chains. These recent crises exposed the vulnerabilities of just-in-time manufacturing and over-reliance on far-flung suppliers – a model defined by traditional globalization.

As businesses struggled to maintain production and meet demand, many began to rethink globalization strategies, shifting the focus from efficiency and cost savings to resilience and flexibility. The recent accumulation of shockwaves has fully exposed critical global value chain (GVC) dependencies, not only to companies but also to policymakers – particularly of Western economies.

However, already prior to the pandemic, Western economies were confronted with a rapidly changing global economic, political, and technological landscape, causing an urgency to act and preserve the West's prosperity and competitive edge for future generations. The structural challenges ahead, with geopolitical, technological, and climate change at the forefront, are so substantial, that governments are increasingly focusing on strengthening the resilience of their overall economies through a renaissance of industrial policy.

### Renaissance of industrial policy

Number of annual industrial policy interventions and share of overall trade interventions attributable to industrial policy [# , %]



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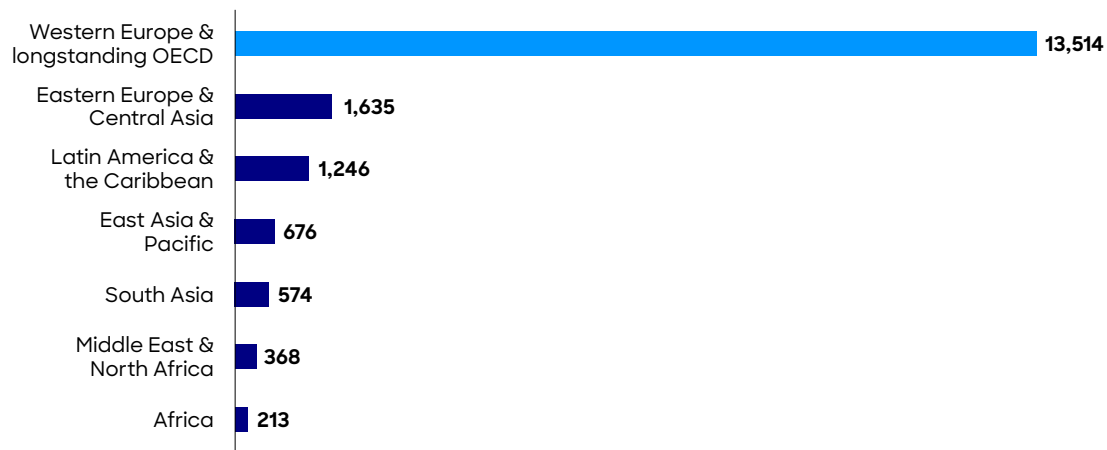
This trend accelerated notably in 2018 with the onset of Donald Trump's trade wars against China and Europe, intended to bolster US domestic industries. A further surge occurred in 2021 as the Biden administration introduced ambitious policies to support critical sectors, foster innovation, and enhance the economy's productive capacity, including the imposition of additional tariffs to shield domestic industries from Chinese competition.

According to available data, the renaissance of industrial policy is mainly driven by advanced economies, who account for the overwhelming majority of industrial policy interventions. Outside this group of countries, industrial policy is more evenly distributed across regions<sup>1</sup>.

Modern industrial policy is complex, and often composed of many distinct policy tools that are outward-oriented. Data indicates that such policies are predominantly implemented through subsidies and export promotion measures. Subsidies and trade-related measures collectively represent the largest share of all industrial policy actions across income levels. Although import tariffs comprise only 1.3% of all industrial policy interventions, they have a notable impact when considering their effects. Nevertheless, tariffs are not the central element of modern industrial policy in most countries.

## The renaissance of industrial policy is a mostly Western phenomenon

Total industrial policy interventions by region, 2010–2022 [#]



Source Annual Review of Economics, Juhász, Lane, and Rodrik

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The comeback of industrial policy in Western economies is fueled by several factors. The global economic landscape has shifted dramatically in recent decades, with China's rise and other emerging markets challenging the traditional economic and technological dominance of Western economies. In response, intensifying global competition has led Western policymakers to re-emphasize the state's role in bolstering domestic industries to maintain their competitiveness in an increasingly multipolar world. Technological innovation, especially in frontier sectors such as artificial intelligence, semiconductors, clean energy, and biotechnology, has further underscored the need for targeted government intervention. These sectors are not only engines of future economic growth but also pivotal to maintaining strategic advantages. Western economies, therefore, view industrial policy as essential for fostering innovation and ensuring leadership in these high-stakes industries.

<sup>1</sup> In the research, the data used is based on GTA's definition of industrial policy interventions. However, a key limitation is that it produces count-based measures, where a subsidy to a single firm and a major sectoral policy like China's shipbuilding consolidation both count as one intervention. This is important to consider when comparing across countries.

Additionally, the economic dislocations caused by the decline of traditional manufacturing industries in many Western countries have led to increased focus on regional economic revitalization. Industrial policy is being employed as a tool to address these challenges by promoting the resurgence of high-value manufacturing, creating quality employment opportunities, and enhancing economic resilience against global competition and technological disruptions.

Finally, the imperative to address climate change has also catalyzed the reemergence of industrial policy. The transition to a low-carbon economy requires substantial investments in green technologies and infrastructure, and governments are leveraging industrial policy to direct these investment flows. By doing so, they aim to accelerate the deployment of clean energy solutions and position their domestic industries at the forefront of the global shift towards sustainability.

The resurgence of industrial policy pushes globalization to evolve. While international trade and cross-border collaboration remain critical, there is a growing emphasis on regionalization, supply chain diversification, and the development of more sustainable and secure global networks. This transition marks a new phase in globalization, one that prioritizes resilience and long-term stability over short-term gains.

## • **The Dynamic Evolution of Global Value Chains in the Era of New Globalization**

The global industrial landscape is undergoing a significant transformation. The traditional trade model, which emphasized economies of scale through vertical division of labor across global value chains (GVCs), is nearing its limits. In this legacy model, established sectors such as electronics, machinery, and automotive industries flourished by leveraging specialized production nodes across different countries. However, the emerging dynamics in global trade and investment are driven by the increasing complexity of GVCs integrating more countries, and interlinking trade and investment flows.

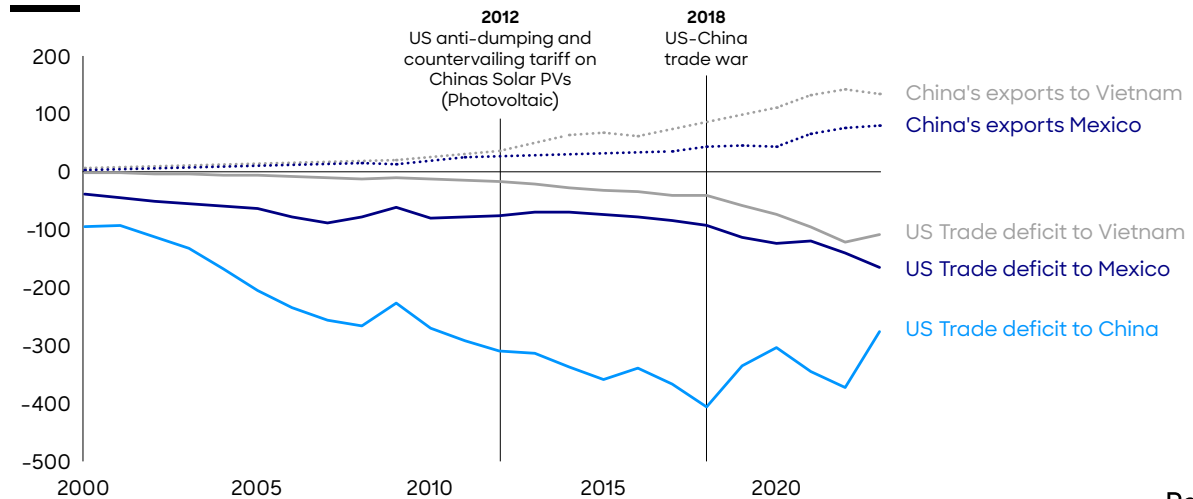
### ***Shifts in Established Industrial Sectors***

The ongoing recalibration of global trade is evident in sectors like electronics and machinery, especially in the interactions among China, the US, and countries that serve as connectors in this shifting landscape. As the US pursues policies aimed at de-risking its supply chain from China, we observe a shift in its trade deficit with China toward "friend-shoring" countries. Vietnam, benefiting from its proximity to Chinese production hubs, and Mexico, with its advantageous access to the US market, are emerging as key beneficiaries of this shift.

However, this transition is not driven by the emergence of new local champions in these friend-shoring countries, but rather by the relocation of Chinese manufacturers. These manufacturers are circumventing US tariffs by assembling intermediate goods imported from China in these friend-shoring countries, thereby profiting from business-friendly industrial policies and free trade agreements. For instance, in 2023 alone, China's foreign direct investment (FDI) into Vietnam surged to USD 12.4 billion, making it China's third-largest FDI destination, while Mexico attracted USD 6 billion, ranking as the 10th largest recipient of Chinese FDI.

## US trade deficit shifts from China to Vietnam and Mexico in line with China's increased exports to Vietnam and Mexico

US trade deficit to China, Vietnam, and Mexico, and China's exports to Vietnam and Mexico [USD bn]



Source US Census Bureau, Comtrade

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Pulled by the global resurgence of industrial policy and pushed by weak domestic demand, China's outbound greenfield FDI tripled in 2023, reaching USD 160 billion and accounting for 11,6% of the global greenfield FDI. Shifting away from advanced economies, China's current globalization outreach is deeply rooted in key connector countries beyond Vietnam and Mexico, such as Saudi Arabia, Egypt, Morocco, Kazakhstan, Argentina, and Serbia.

China's transformation from the "world's factory" to a globalized "Chinese factory" is reminiscent of Japan's globalization strategy during Japan's Lost Decades since the 1990s. After 35 years of development, the overseas production ratio of Japanese manufacturers reached 37%, according to a survey by the Japan Bank for International Cooperation.

However, there are significant differences in the management model between Chinese and Japanese globalization. Japan's globalization was driven by the highly coordinated Keiretsu model, where companies along the supply chain aligned through synchronized planning of production capacity and financial arrangements. In contrast, such coordinated structures are largely absent in Chinese companies, except in the battery industry. This is because internationalization of Chinese suppliers was driven by their Western clients. On the other hand, Chinese companies that cater directly to end users, such as automotive original equipment manufacturers (OEMs), are more influenced by industrial policies. As newcomers to local supply chains, Chinese OEMs are primarily engaged in knockdown assembly by shipping their components from China rather than fully integrating with Chinese suppliers which have already localized. As their management capabilities improve, we foresee a shift, but not towards the Japanese model. Instead, the future is more likely to involve an intricate supply chain with a diversified background in reshoring and in connector countries.



### Shifts in Critical and Emerging Technologies

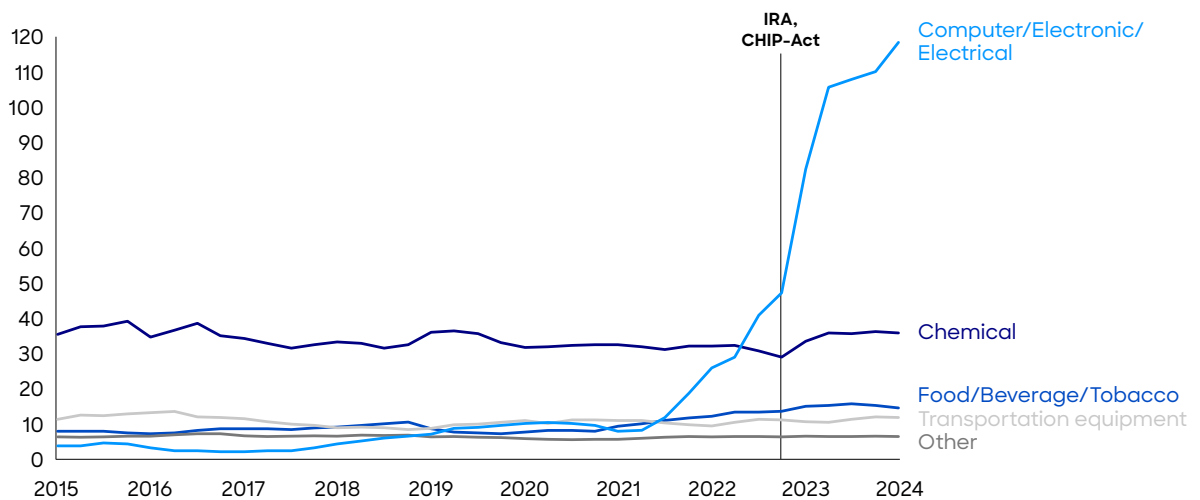
The changes in GVCs in critical and emerging technologies, spurred by techno-nationalism, are more profound and structural than those in established sectors. While from a GVC perspective this may appear as deglobalization, it is, in fact, globalization from the viewpoint of companies.

The semiconductor industry provides a prime example of this transformation. The current global semiconductor value chain is characterized by high geographic concentration: 75% of wafer fabrication is in East Asia, 67% of global logic chip design is based in the US. The high risk and capital-intensive nature of semiconductor fabrication has traditionally maintained this geographic specialization.

However, with major economies striving to establish their own semiconductor fabrication capabilities, government interventions in the US, Europe, and Japan are pushing companies to further globalize production. Taiwan Semiconductor Manufacturing Company (TSMC), which produces 92% of the world's most advanced logic chips (<10nm), exemplifies this transition. Between 2020 and 2024, TSMC is investing USD 65 billion to build three fabrication facilities in the US, supported by the CHIPS Act. These factories are expected to produce 4nm, 3nm, and 2nm chips starting in 2025. At the same time, TSMC is diversifying its global presence by establishing a foundry for cutting edge technologies in Japan and entering a joint venture in Germany with established players such as Bosch, Infineon, and NXP to produce automotive chips.

## IRA and Chip Act fuel surge in US fabrication investment

US manufacturing construction spending by type [USD bn]



Source US Census Bureau

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The Inflation Reduction Act and the CHIPS Act of the US have catalyzed a wave of investment in the sector of computer, electronic, and electrical industries, strongly fueled by FDIs. Similarly, Europe is pushing to double its share of global semiconductor manufacturing from 10% to 20% by 2030 with a EUR 43 billion (USD 48 billion)

European CHIPS Act, and Japan has pledged YEN 2 trillion (USD 14 billion) in subsidies to support up to 50% of investments in new fabrication facilities. As a result of these policies, Greenfield FDI to advanced economies increased by 17.5% in 2023 compared to 2021, the year before significant policy intervention.

- **Navigating Policy Uncertainty in a Shifting Global Landscape**

Industrial policies disrupt the economies of scale traditionally achieved in global value chains. When companies base their strategies on policy compliance, maintaining profitability becomes challenging. As a result, they need to adapt their strategies to operate within the constraints of diminished economies of scale and supply chains with diversified background. This strategic pivot requires scenario analysis based on global industrial policy projections, smart localization strategies, and the optimization of global operations to effectively navigate policy uncertainties.

***The Power of Scenario Planning in an Uncertain World***

Scenario planning is a critical tool for businesses to manage geopolitical and industrial policy uncertainties. While future developments - such as potential US tariffs or geopolitical tensions - are unpredictable, scenario analysis helps companies anticipate and mitigate risks. It enables organizations to develop strategies for risk management, ensure supply chain continuity, manage cash flow, and establish key performance indicators (KPIs) to monitor resilience in an increasingly volatile environment.

Multinational enterprises (MNEs) must now incorporate industrial policy risks into their scenario analysis. A case in point is the global expansion of Chinese solar photovoltaic (PV) companies, which adapted their operations in response to global tariff regimes. By relocating cell production to Southeast Asia in 2012 to circumvent US tariff and subsequently shifting wafer production to Gulf Cooperation Council countries, these companies have effectively navigated changing industrial policies. With US tariffs on the horizon for Southeast Asia, Chinese PV firms are now optimizing their production strategies across multiple regions based on scenario analysis of both market demand and policy shifts.

***Smart Localization: Leveraging Supplier Relationships***

While complete localization can undermine profitability, historical strategies from the automotive industry offer valuable lessons. Prior to the WTO framework, auto manufacturers like German OEMs successfully balanced dispersed final assembly with concentrated supply chains. By producing components in South Africa for global markets, they met local content requirements while maintaining global efficiency. Japanese auto OEMs continue to apply a similar regional supply chain approach across Southeast Asia, using specialized production hubs while keeping final assembly in key markets.

As Chinese suppliers relocate and local companies seek to expand their reach, system assemblers and OEMs must adopt smart localization strategies. This involves building strong relationships with existing suppliers in new locations and expanding partnerships with local suppliers. Such strategies help businesses maintain flexibility and resilience in a more complex operational environment driven by shifting industrial policies.

### ***Operational Optimization: Adapting to Technological and Policy Changes***

MNEs continuously adapt their operational strategies to navigate the evolving landscape of globalization, shaped by technological advancements and policy shifts. During the rapid globalization of the 1990s, driven by neo-liberalism following the end of the Cold War, MNEs developed matrix management models that balanced reporting lines between regional offices and business units at headquarters. Each MNE tailored this structure to its priorities - some empowering regional offices, while others centralized control. As technological advancements began to significantly impact industries, many MNEs shifted their focus toward business units to better respond to these changes. However, with the growing pressures of protectionism alongside ongoing technological disruptions, companies are now reassessing their strategies, aiming to strike a balance between these factors to optimize global operations.

No matter which operational model a company adopts, a well-executed digitalization strategy can help companies optimize their operations by streamlining design processes, enhancing supply chain visibility and efficiency, automating production workflows for greater precision and cost-effectiveness, and improving client relationship management through data-driven insights, personalized services, and real-time engagement. While the headquarters of MNEs should empower their subsidiaries with localized decision-making, establishing a well-aligned IT architecture that integrates AI and generative AI (GenAI) technologies is crucial for overall success.

### • **Conclusion: A New Phase of Globalization**

The notion of "deglobalization" based on general trade and FDI data misreads the current economic landscape. In reality, greenfield investment is on the rise, and more connector countries are being integrated into global value chains. However, this optimistic trend is accompanied by a more complex reality: Industrial policy has surged to the forefront, intertwined with geopolitical tensions, techno-nationalism, and the push for a green transition.

Both advanced and developing economies are eager to reignite growth amid the global productivity stagnation we discussed in our last Quarterly report. While their motivation is understandable, the global resurgence of industrial policy is challenging economies of scale at a global level - like the "Factory China" or "Factory East Asia" models that once defined globalization.

In this new phase of globalization, we see a dynamic web of East Asian companies - Taiwanese chipmakers propelled by techno-nationalism and Chinese factories leading the green transition - expanding well beyond the presence of Japanese and South Korean firms. The calculus of economies of scale is being redefined, now based on shorter, more diverse supply chains involving players from a wide array of cultural backgrounds. But a shorter supply chain does not equate regionalized operations to companies. In fact, companies aren't merely reacting to the resurgence of industrial policy; they're becoming more globalized by navigating a complex new web of trade, investment, and financing opportunities.

Companies must reconsider their strategy from compliance to profitability. Therefore, they should navigate this new landscape by employing comprehensive scenario planning to anticipate and respond to potential changes effectively. Implementing a smart localization strategy will enable businesses to better adapt to regional market dynamics and regulatory environments. Additionally, operational optimization is essential to maximize efficiency and resilience in a rapidly shifting global economy. By integrating these strategic approaches, companies can sustainably thrive amid the complexities of present-day globalization.

### ***Further reading***

- [\*The global productivity challenge\*](#)
- [\*Global South: Beyond BRICS\*](#)
- [\*The rise of Southeast Asia\*](#)

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We thank Peter Vogt, Ioan Simionescu, and Michaela Wedel for their contribution to research, data, and storyline.

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