

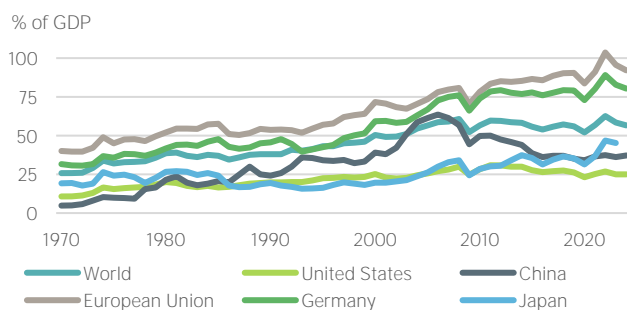
Industrial policy in transition – from global to local

Governments are increasingly prioritizing resilience over efficiency, with far-reaching consequences for markets and companies

A fundamental shift in national industrial policy that began in the U.S. is now underway in many countries: Domestic production has become a priority. The policies involved include subsidies, local production requirements and the establishment of strategic reserves. The United States is the pioneer: Donald Trump has introduced a flood of tariffs, “Buy American” clauses and billion-dollar subsidy programs for chips and batteries. “National ego” may be the main driver behind this policy shift, but it also represents an attempt to support those who have been negatively impacted by globalization. National security, stable supplies, and control over important technologies are further factors. A world of geopolitical uncertainties means that excessive external dependency is now considered problematic.

Some observers see these developments as a regrettable departure from globalization, with possible consequences such as higher prices and less competition. But this view may be short-sighted. Ultimately the question is whether countries want to make internal stability their priority or greater efficiency through a globalized industrial policy.

International trade is slowing down



Sum of exports and imports of goods and services as a percentage of gross domestic product (GDP).

Sources: World Bank, DWS Investment GmbH as of 10/27/25

The guiding principle for a long time has been that everyone benefits when each country produces what it does best. This is known as the Ricardo model and describes the major advantage of international trade. But the model only works under certain conditions, including stable supply chains and

the absence of geopolitical disruptions. These conditions no longer seem to exist.

The pandemic, geopolitical conflicts and intermittent shortages in supplies of energy, chips and medicines have demonstrated the vulnerability of global supply chains. Consequently, many governments are intervening more strongly in global markets once again by providing targeted subsidies and developing local capacities. This trend is gaining momentum too in Europe and Asia.

By establishing their own structures, countries are attempting to protect themselves against potential disruptions to international trade. This incurs costs initially, for example through higher production costs or duplicate structures. However, in an emergency these structures may provide protection against major harm, the threat of which is often underestimated until it becomes a reality. Johannes Müller, Global Head of Research at DWS Group, sums it up: “Markets have long underestimated how much geopolitical risks and strategic bottlenecks can alter the economic landscape. We are witnessing a reappraisal of the importance of stability as a location factor.”

Of course, the new industrial policy has risks of its own. If pursued too vigorously or one-sidedly it can stifle competition and slow down innovation. The key is therefore to strike the right balance – targeted, time-limited, and ideally coordinated internationally.

The central question is not whether or not we should embrace globalization. Rather, it is how much resilience do we need, and how much efficiency are we willing to sacrifice for it? Moderate deglobalization can bring advantages such as increased regional production, shorter delivery routes and higher environmental standards. It can also help to strengthen acceptance of open markets by reducing fears about external dependency.

There is certainly room for maneuver between the ideal of global free markets and the real challenges presented by them. Those who use this flexibility wisely could find themselves in a stronger position in the future.

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Glossary

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

A **tariff** is a tax imposed by one country on the goods and services imported from another country.

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as of 10/28/25; 107957_1 (10/2025)

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as of 10/28/25; 107958_1 (10/2025)