

Supply Chains and Sovereignty: the rising trend of localisation vs globalisation

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In the past, the logic behind global supply chains was deceptively simple: source components where they were cheapest, assemble products where production was most efficient/ economical, and sell where demand was strongest. This model, refined over decades, essentially prioritised cost



and scale above nearly all other considerations. Yet, in recent years, geopolitical pressures, technological competition and trade disputes have upended the assumptions underpinning this paradigm. A particularly striking illustration is China's ongoing effort to purge foreign components from critical supply chains. Triggered in large part by US export controls and tariffs targeting semiconductors, advanced manufacturing and high-tech inputs, Beijing's strategy is reshaping the way companies worldwide think about sourcing, risk and operational resilience.

China's purge is more than a defensive reaction; it is a calculated industrial strategy. By substituting foreign technology and inputs with domestic alternatives, Beijing aims to reduce exposure to external pressures, while nurturing indigenous capacity in strategic sectors. For multinational firms reliant on Chinese production hubs, the implications are profound. Sourcing that was taken for granted is now politically mediated. The broader lesson is clear: in a world where states are willing to weaponise trade and technology, supply chain decisions cannot be based on cost alone.

From efficiency to strategic resilience

The post-Cold War globalisation model emphasised hyper-specialisation and just-in-time delivery. Firms optimised for lowest landed cost, often concentrating production in a handful of hubs capable of supplying global markets efficiently. But a series of shocks (US–China trade tensions, COVID-19 disruptions, the war in Ukraine and restrictive export-control regimes) exposed the fragility of long, highly concentrated supply chains.

This fragility has altered corporate calculations. Today, political and strategic risk is a first-order variable. Companies must consider the likelihood of sudden sanctions, export bans or geopolitical conflict interrupting critical inputs. Consequently, risk-aware supply chains prioritise resilience over cost, investing in redundancy, diversification and contingency planning. This shift represents a fundamental reorientation: from maximising operational efficiency to ensuring operational continuity under adverse conditions.

The global turn toward supply-chain sovereignty

As China pursues internal substitution, other states and regions are also embracing the concept of supply chain sovereignty, ensuring secure access to essential goods and critical technologies, while mitigating dependence on potentially hostile or unstable partners. This trend is evident across multiple geographies:

- **US:** initiatives such as the CHIPS and Science Act aim to stimulate domestic semiconductor production, reduce reliance on foreign suppliers and enhance technological independence.
- **EU:** the EU's Industrial Strategy and Critical Raw Materials Act encourage member states to develop domestic or allied capabilities for strategic inputs, particularly in batteries, semiconductors and green technologies.
- **Asia-Pacific:** Japan, South Korea and Taiwan are investing in regionalised manufacturing clusters, often in collaboration with friendly economies, to reduce overreliance on China, while maintaining competitive advantage in high-tech sectors.

Across regions, the common thread is clear: localisation is no longer solely about cost optimisation, it is an instrument of strategic security. Firms are increasingly required to navigate a fragmented landscape in which political alignment, regulatory certainty and access to strategic inputs can determine operational viability.

China's strategic reconfiguration

China's current policy is both defensive and forward-looking. On the defensive side, Beijing seeks to insulate domestic industries from US-led export restrictions, particularly in semiconductors, telecoms equipment and aerospace components. On the offensive side, the government channels significant state resources into developing domestic alternatives, including investment in chip fabrication, rare-earth processing and other critical inputs.

The implications for multinational firms are multifaceted:

Sourcing complexity: firms must identify alternative suppliers, qualify new production lines and potentially redesign products to accommodate different inputs.

Regulatory navigation: compliance now extends beyond tariffs and customs to encompass licensing, denied-party lists and evolving export-control regimes.

Cost implications: domestic or regionalised substitutes are often more expensive, and supply-chain redesigns increase capital and operational expenditure.

China's strategy also illustrates a broader point. When a major hub deliberately restructures its supply base, it generates ripple effects worldwide. Companies that are dependent on Chinese manufacturing face disruptions which can cascade through regional and global networks.

Re-globalisation on new terms

Despite the focus on localisation, the global economy is not retreating into autarky. Instead, we are witnessing a re-globalisation characterised by strategic fragmentation. Key features include:

Nearshoring and friendshoring: firms relocate production closer to key markets or within politically aligned regions. For example, North American manufacturers increasingly move components to Mexico, while European firms establish production in Eastern European or North African hubs.

Redundancy and diversification: companies qualify multiple suppliers across different jurisdictions, create regional hubs and maintain buffer inventories.

Technology-enabled visibility: AI, digital twins and end-to-end logistics platforms allow firms to monitor supply chain vulnerabilities in real time, enabling rapid rerouting or substitution.

Sectoral differentiation is also crucial. High-value, strategically sensitive industries (semiconductors, batteries, medical devices) see aggressive localisation and diversification. Commodity components or standardised manufacturing inputs may remain global, reflecting a risk-weighted allocation of resources.

Corporate responses across sectors

Companies across industries are adjusting to this evolving landscape in three primary ways:

1. **Strategic supplier selection:** firms now assess suppliers not only for cost and quality but also for political reliability and alignment with regulatory frameworks.
2. **Investment in domestic or regional capacity:** automotive, electronics and energy companies are building or acquiring production capacity closer to home to reduce exposure to supply shocks.
3. **Digital supply chain orchestration:** AI-driven demand forecasting, inventory management and supplier risk monitoring are becoming standard tools for managing complex, fragmented networks.

These responses are expensive but increasingly non-negotiable. Companies that fail to recalibrate may face higher disruption risk, regulatory penalties or reputational damage if critical shortages occur.

Economic and policy implications

The shift toward localised and sovereign supply chains carries macroeconomic and policy consequences:

- **Structural cost increases:** regionalised and redundant production is more expensive. These costs may be absorbed by companies, consumers or governments through subsidies.
- **Productivity dynamics:** hyper-specialisation-driven gains may slow, as firms trade scale for resilience.
- **Emergence of strategic industries:** governments incentivise domestic production of critical inputs, creating new winners and new regulatory and competitive dynamics.
- **Potential for over-correction:** excessive localisation could ossify geopolitical blocs and fragment markets, reducing efficiency and slowing innovation.

Policymakers and corporate strategists must balance sovereignty with economic rationality, identifying the limited set of inputs and processes where local control is critical, while retaining global supply advantages elsewhere.

Conclusion

The era of unconstrained globalisation is giving way to a politically structured re-globalisation. China's purge of foreign components illustrates the immediate consequences of state-directed industrial policy, but the broader trend (nearshoring, friendshoring and supply chain sovereignty) is global. For company executives, the emerging reality demands a strategic response that balances risk, cost and operational continuity.

In practice, these measures create resilient, politically aware supply chains without resorting to extreme economic independence. Firms that act decisively can navigate disruptions, while capturing strategic advantages in a world where sovereignty increasingly shapes commerce.

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