Investment Opportunities in Reindustrialisation and De-Globalisation

It is probably fair to assume that many considered the economy, with its interconnected markets and slick global supply chain as a routine and continuous way of life, business and investing.

In fact, this global system, we could argue, only really developed over the last century, as (mainly) the US Navy ensured free and safe passage for merchant shipping. This in turn, allowed countries to specialise, importing anything not within their specialist list.

Some, like China focused on low-cost industrial production, buying in food, energy, and raw materials. Others, like the UK, whose industrial revolution began in 1760, de-industrialised, focusing instead on services, whilst buying in those manufactured products made elsewhere, in countries like China.

At its peak, manufacturing accounted for almost half of output and employment in the UK.

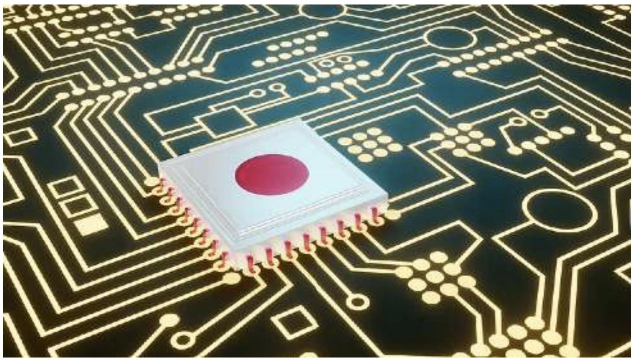
Today it stands at less than 10%. Manufacturing in the US peaked at about 28% share of the economy, but has since fallen to little more than 10%.

Even in Europe's manufacturing powerhouse, Germany, the manufacturing share of the economy fell from 25% to 19% between 1991 and 2022.

However, the last few years has seen a paradigm shift in the global economic landscape as deglobalization and re-industrialisation come to the fore.

Several factors have contributed to this shift, including trade disputes, geopolitical tensions, and the COVID-19 pandemic. The Western world, traditionally reliant on outsourcing manufacturing to low-cost countries, is now re-evaluating the risks associated with such dependencies.

The growing sentiment towards protecting domestic industries and reducing dependency on foreign nations is gathering pace and is being pushed along by governments, such as the August 2022 US Inflation Reduction Act's package of subsidies and incentives. The EU is now escalating its own efforts.



In April 2020, Japan allocated some US$2.2billion to entice Japanese companies back from China.

These initiatives have drawn criticism on the grounds they amount to a subsidy race, but are focusing heavily on developing domestic manufacturing and R&D.

The Western nations, recognising the importance of self-sufficiency and resilience, are focusing on rebuilding their manufacturing capabilities and reclaiming industries that were once outsourced to other regions.

Are there any Investment Opportunities in Deglobalisation and Re-industrialisation? Well, here are a few ideas.

Infrastructure Development

Re-industrialisation means the need for robust infrastructure to support manufacturing and production facilities.

Investment in infrastructure projects such as industrial parks, logistics hubs, and transportation networks can yield substantial returns as governments and private entities strive to create an enabling environment for domestic industries.

Technological Advancements

Re-industrialization necessitates the integration of advanced technologies and automation systems into manufacturing processes. Investors can explore opportunities in technology companies offering solutions like robotics, artificial intelligence, and industrial IoT (Internet of Things). These innovations can enhance productivity, reduce costs, and provide a competitive edge to re-emerging industrial sectors.

Reshoring Initiatives

Many companies are now reshoring their operations or diversifying their supply chains to reduce reliance on a single region. Investing in businesses that facilitate reshoring, such as domestic suppliers, contract manufacturers, and logistics companies, can be lucrative as the demand for localized production and sourcing grows.

Sustainable Manufacturing

The current emphasis on sustainability presents investment opportunities in environmentally friendly manufacturing practices.

Investors can consider funding projects that promote renewable energy integration, waste reduction, and resource efficiency.

The rising consumer demand for eco-friendly products also creates opportunities for investments in green industries.

Skilled Workforce Development

Re-industrialisation requires a skilled labor force capable of operating advanced manufacturing technologies. Investing in vocational training programs, educational institutions focusing on technical skills, and apprenticeship initiatives can generate long-term returns as the demand for skilled workers surges.

Any or all these points are likely to become the focus of fund and ETF managers in the very near future, offering opportunities for individual investor portfolios.

Strategies for Capitalizing on the Trend

Research and Analysis

Carefully consider how to identify industries and sectors that are poised for growth due to deglobalisation and re-industrialisation.

Understand the local market dynamics, government policies, and emerging trends to make informed investment decisions.

Diversification

Spread investment across multiple sectors to mitigate risks. While manufacturing is an obvious area of focus, consider complementary sectors like technology, infrastructure, and logistics that are closely linked to re-industrialization.

Long-term Perspective

Deglobalization and re-industrialization are transformative processes that require time to fully materialize. Adopt a long-term investment horizon to capture the potential gains associated with this trend.

Conclusion

The ongoing deglobalisation and re-industrialisation of the West present investors with promising opportunities.

By strategically investing in infrastructure, technology, reshoring initiatives, sustainable manufacturing, and workforce development, investors can capitalise on this shifting economic landscape.

However, it is crucial to conduct thorough research, diversify investments, and adopt a long-term perspective to navigate the complexities and uncertainties associated with this emerging trend.

As the West reclaims its industrial prowess, those who embrace these opportunities stand to benefit from the changing tide of global economics.