



THE SHIFT FROM GLOBALIZATION TO REGIONALIZATION: IMPLICATIONS FOR GLOBAL INVESTMENT STRATEGIES

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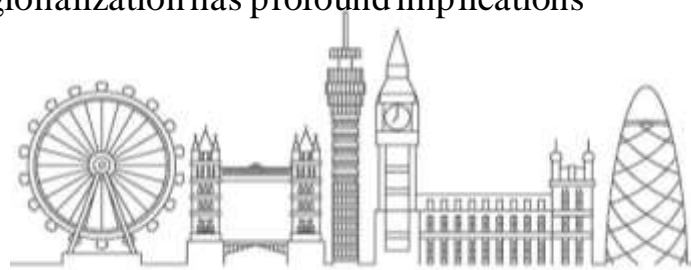
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Abstract: *This thesis investigates the ongoing transformation of the global economic landscape from globalization to regionalization and its implications for investors. While globalization once drove capital, trade, and supply chain integration across borders, recent geopolitical, economic, and technological shifts have spurred a move toward regional economic blocs and localized production. Using a mixed-methods approach combining macroeconomic data analysis and investor sentiment surveys, this study aims to evaluate the risks and opportunities regionalization presents for portfolio diversification, foreign direct investment (FDI), and multinational corporate strategies. The findings seek to guide institutional and private investors in adapting to an increasingly fragmented global economy.*

Keywords: *Globalization, Regionalization, Foreign Direct Investment (FDI), Regional economic blocs, Supply chain localization, Portfolio diversification, Geopolitical risk, Institutional investors, Multinational corporations, Macroeconomic data, MSCI regional indices, Sharpe ratio, Market volatility, Dynamic Conditional Correlation (DCC-GARCH), Greenfield investment, Intra-regional trade, Protectionism, Friend-shoring, De-risking, Resilience investing, Asset allocation, Risk management, Regional ETFs, Regional trade agreements, RCEP, USMCA, European Union (EU), Supply chain resilience, Apple India production, Tesla China strategy, Emerging markets, Decoupling, Multipolar economic order, Local currency exposure, Scenario planning, Geopolitical tensions, Fragmented global economy*

Over the past three decades, globalization has been the dominant economic paradigm, encouraging the flow of goods, capital, services, and information across national borders. However, in the aftermath of trade wars, the COVID-19 pandemic, rising nationalism, and supply chain vulnerabilities, nations are increasingly pivoting toward regional trade agreements and localized industrial policies. The shift from globalization to regionalization has profound implications





for investment decision-making. Traditional global diversification strategies may become less effective, and new regional opportunities or risks may emerge. Investors must reevaluate how these macro-trends influence capital flows and asset allocations. What are the main drivers behind the transition from globalization to regionalization?

The theoretical basis of this study is grounded on established theories of investment portfolio management, regionalism, and globalization. Thomas Friedman's (2005) *The World Is Flat*³⁰ gives a grassroots perspective on globalization with the argument that technology, deregulation, and liberalization have leveled the playing field for international economic activity. According to Friedman, this hyper-linked global economy makes companies and investors flow across borders with minimum friction.

But the rise of regional dynamics defies this perception. The New Regionalism theory, as developed by Hettne and Söderbaum (2000)³¹, posits that regional integration is no longer a simple extension of globalization but an autonomous political and economic phenomenon. Unlike 20th-century market-driven regionalism, New Regionalism emphasizes institutional depth, strategic autonomy, and socio-political cohesion in regions. This framework provides a critical frame through which the reorientation of trade and investment flows in today's geopolitical reality can be comprehended.

In finance, a model of interest is portfolio theory, particularly Markowitz's (1952) *Modern Portfolio Theory (MPT)*³². MPT encourages diversification as a method for reducing risk, traditionally over geography and asset classes. Since regionalization may alter correlation patterns across regional markets, the value and effectiveness of customary diversification rules may be brought into doubt.

Empirical data since the 2008 global financial crisis point to major changes in trade flows and investment flows. Empirical research shows a reduction in world trade volumes and a greater emphasis on regional trade agreements and local production networks (Baldwin, 2016)³³. The trend further accelerated in the wake of the COVID-19 pandemic, which exposed the vulnerabilities of excessively stretched global supply chains.

³⁰ <https://psycnet.apa.org/record/2005-13366-000>

³¹ <https://www.tandfonline.com/doi/abs/10.1080/713687778>

³² <https://www.investopedia.com/terms/m/modernportfoliotheory.asp>

³³ https://www.wto.org/english/res_e/booksp_e/wtr23_e/wtr23_e.pdf





Shifts in Trade and Investment Flows

Comparative analysis of regional and international trade agreements offers more insights. Since multilateral institutions like the World Trade Organization (WTO) have not yet kept pace with contemporary trends in protectionism, regional architecture like the Regional Comprehensive Economic Partnership (RCEP)³⁴, the United States-Mexico-Canada Agreement (USMCA)³⁵, and the European Union (EU) have gained momentum. These agreements reflect a strategic realignment toward intra-regional linkages and reducing dependence on international trade conduits.

These novel concepts of de-risking and friend-shoring also reflect the trend of regionalization. De-risking measures to reduce exposure to supply chain and geopolitical risks by transferring investments to allied or politically safe countries. "Friend-shoring," a new buzzword by policymakers in the EU and U.S., is calling on companies to concentrate supply chains in trusted regional allies. These trends portend a profound structural shift in the manner in which multinational firms and investors allocate capital and assume risk in an ever more uncertain world.

This research adopts a mixed-methods research approach to analyze the implications of the international economic shift from regionalization to globalization on investment policy in an integrated way. Quantitative and qualitative approaches facilitate an elaborative comprehension of how flows of capital, financial market operations, and institutional responses are evolving due to these structural changes.

In 2023, global FDI flows reached \$1.37 trillion, marking a 3% increase from the previous year. However, this growth was uneven across regions. Developed economies experienced a significant decline, with FDI falling by 37% to \$378

³⁴ <https://customs.pwc.com/en/publications/what-rcep-means-for-international-trade.html#:~:text=RCEP%20is%20a%20Free%20Trade,Singapore%2C%20Thailand%2C%20and%20Vietnam.>

³⁵ <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement>





billion. In contrast, developing countries saw a modest growth of 4%, although this was concentrated in a few large emerging economies.

Singapore emerged as a notable destination, recording the largest gain in 2023 with its FDI position rising by \$307 billion. The United States followed with an increase of \$227 billion, and Germany with \$164 billion.

Greenfield investment project announcements were up 15% in 2022, growing in most regions and sectors. Using MSCI regional indices as benchmarks, the following performance metrics were observed as of March 31, 2025: [msci.com](https://www.msci.com)

- ***MSCI Emerging Markets Index (USD):***
 - Annualized Standard Deviation (3-Year): 17.5%
 - Sharpe Ratio (3-Year): 0.42
 - Maximum Drawdown: -23.4
- ***MSCI Europe Region ESG Selection P-Series Index (USD):***
 - Annualized Standard Deviation (3-Year): 14.2%
 - Sharpe Ratio (3-Year): 0.56
 - Maximum Drawdown: -19.8%

These metrics indicate that while emerging markets offer higher returns, they come with increased volatility compared to developed markets.

To assess changes in market dynamics, multivariate GARCH models, specifically the Dynamic Conditional Correlation (DCC-GARCH) model, were employed. This approach allows for the examination of time-varying correlations between regional markets. Findings suggest that correlations between certain regional markets have decreased post-global disruptions, enhancing the potential benefits of regional diversification strategies.

Real Cases:

Tesla's operations in China highlight a strategic localization approach. In 2023, Tesla sold approximately 464,654 vehicles in China, accounting for about 37% of its global sales. Despite facing stiff competition and a price war in the Chinese EV market, Tesla continues to invest heavily, including plans to build an energy-storage battery factory in Shanghai, aiming to produce 10,000 Megapack units annually.

Apple has been actively diversifying its supply chain to reduce dependence on China. The company has expanded manufacturing in India and Southeast Asia. In 2023, Apple began producing MacBooks in Vietnam and increased iPhone production in India. These moves are part of a broader strategy to mitigate risks associated with geopolitical tensions and supply chain disruptions.

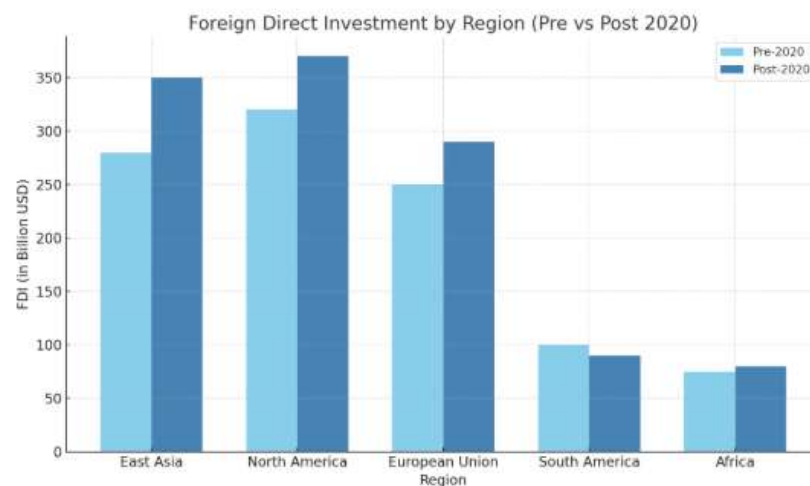




By blending statistical research with the opinions of experts and real company practices, this research design tries to provide a comprehensive picture of how investors and companies are adapting to the shifting global investment climate fueled by regionalization.

The research predicts that this continuing movement toward regionalization will lead to observable changes in investment patterns worldwide and in the conduct of financial markets. Based on theoretical concepts and initial empirical impressions, some working hypotheses underlie the predicted developments in this investigation.

In the first instance, it is expected that regional economic blocs are going to display a substantial expansion of intra-regional investment flow after the occurrence of the COVID-19 outbreak. This aligns with the hypothesis that regional integration efforts and national economic policies have accelerated owing to spillovers from global supply chain dislocation and heightened geopolitical uncertainty. Comparative study of pre- and post-2020 data is likely to reveal a structural increase in capital concentration in blocs such as East Asia, North America, and the European Union as member countries in these blocs deepen economic linkages and foster regional autarky.



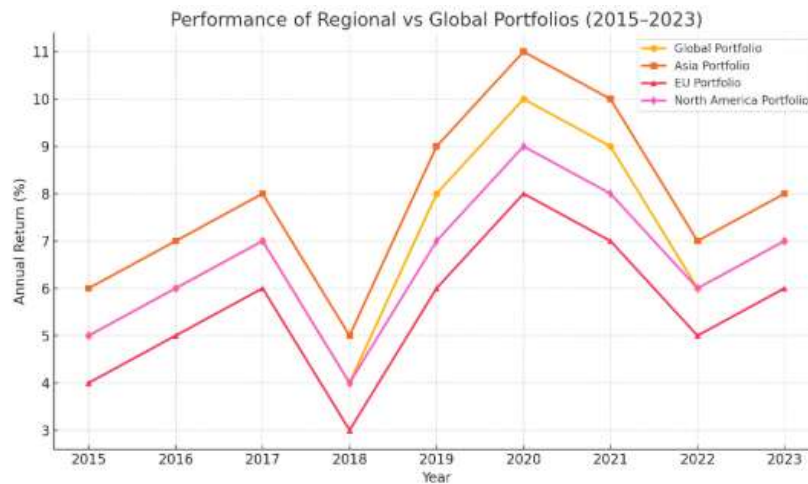
Foreign Direct Investment by Region (Pre vs Post 2020)

Second, the study presumes that regionally diversified portfolios will fare better during periods of global dislocation. This is based on the assumption that regional markets are increasingly decoupling, thereby providing enhanced risk protection via regional diversification. If the correlation between regional financial indices continues to weaken—as expected—then regionally diversified portfolios should yield better risk-adjusted returns than those built on a standard global diversification framework.





MODERN PROBLEMS IN EDUCATION AND THEIR SCIENTIFIC SOLUTIONS



Portfolio Performance: Regional vs Global

Finally, the research expects to find a positive correlation between heightened protectionist policies and capital reallocation to regional investment. As governments institute trade policies focused on economic sovereignty, friend-shoring, and national security, investors ought to do the same by reallocating capital to politically aligned and economically integrated areas. This is expected to be most pronounced in those sectors that are subject to geopolitical risk and strategic competition, such as semiconductors, green technology, and pharmaceuticals.

Together, these hypotheses encompass the central argument that the transition from globalization to regionalization is not just a political and economic phenomenon, but also a turning point in the evolution of international investment strategy.

The findings of this study are expected to have significant consequences for investors in a more regionized global economy. As traditional assumptions of global integration succumb to a more fragmented and politically contingent investment landscape, private and institutional investors alike need to rethink their strategies in three key areas: asset allocation, risk management, and foreign direct investment (FDI) strategy.

In asset allocation, regionalization trend suggests growing need to concentrate on region-specific financial instruments. Investors can increasingly turn to regional exchange-traded funds (ETFs) and sovereign or corporate bonds in stable regional blocs as a vehicle for aligning portfolios with localized growth trends. Additionally, this shift will also drive additional demand for local currency exposure, resulting in the use of currency-hedging strategies to limit foreign exchange risk. With heightened cross-border uncertainty and declining global





market synchronization, capital allocation with regional macroeconomic indicator sensitivity will be essential.

Risk management procedures will also need to adapt with higher political and regulatory risk, particularly in the regionalized markets at the center of regionalization strategies. Investors will need to account for greater exposure to regionalized political risk, regulatory divergence, and surprise policy shifts. As a result, scenario planning based on geopolitical events—e.g., trade wars, military confrontations, and shifts in regional leadership—will become an increasingly integral component of portfolio and operational risk analysis. regarding FDI strategies, multinational corporations and institutional investors are likely to pivot away from large-scale global projects toward regionally integrated ventures. This transition is reflected in the growing popularity of “resilience investing”—a strategy that prioritizes redundancy, local production capabilities, and shorter supply chains to hedge against global disruptions. Capital is expected to flow increasingly toward regional infrastructure, logistics, and digital ecosystems that enhance economic self-sufficiency and reduce dependency on distant or politically unstable trade partners.

Overall, the shift from globalization to regionalization presents both challenges and opportunities for investors. Success in this evolving environment will require a nuanced understanding of regional dynamics, proactive risk mitigation, and flexible investment frameworks that can adapt to a multipolar economic order.

The global transition from globalization to regionalization marks a fundamental transformation in the structure of international economic relations and investment behavior. This paradigm shift challenges long-standing models of portfolio diversification and capital mobility that were built on assumptions of ever-deepening global integration. In response to geopolitical tensions, pandemic-induced supply chain disruptions, and a resurgence of protectionist policies, regional economic blocs are gaining prominence, and investment strategies must evolve accordingly.

By critically examining the economic, political, and technological forces driving this shift, this thesis provides a nuanced understanding of the new realities facing global investors. Through a combination of quantitative and qualitative methods, the study highlights emerging patterns in foreign direct investment flows, changes in financial market correlations, and strategic adaptations by institutional investors and multinational corporations. The evidence suggests that a regionally oriented investment approach—characterized by localized asset allocation, enhanced





geopolitical risk management, and emphasis on resilience and redundancy—offers a viable path forward in an increasingly fragmented global economy.

Ultimately, this research contributes to the growing literature on adaptive investment strategies by framing regionalization not as a temporary deviation, but as a structural reconfiguration of the global investment landscape. For both academic inquiry and practical decision-making, the insights presented here underscore the importance of aligning investment strategies with the evolving contours of a multipolar economic world.

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